

PO-CH/NL/0070

PART A

Part A.

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PO -CH /NL/0070



PART A

Chancellor's (Lawson) Papers:

CONSERVATIVE AND THE
OPPOSITION PARTIES
POLICIES AND PUBLIC
OPINION

NL/0070

-CH

PO

PART A

Disposal Directions 25 Years

T Anderson

24/7/95

From: P R GORDON
Date: 15 July 1983

1. ECONOMIC SECRETARY
2. CHANCELLOR

cc Chief Secretary
Financial Secretary
Minister of State
Mr Middleton
Mr Bailey
Mr Anson

Mr Battishill
Mr Lovell o/r
Mr Monck
Mrs Lomax
Mr Pirie
Mr Robson
Mr Andren
Mr Marshall
Mr Ridley

Mr McConnachie (I/R)
Mr Lomax (B of E)

THIRD REPORT OF THE GRYLLES STUDY GROUP

These comments on this Report have been prepared by drawing largely on past material prepared for discussions with the Grylls Group at Ministerial and official meetings with representatives of the Group. The proposals made at the end of the Report are not new. The Bank of England, Inland Revenue and other Treasury Divisions have been consulted.

The Report's main thesis

2. The main thesis of the Report is that the institutional arrangements for industrial investment in the UK are unsatisfactory, and notably deficient compared with those obtaining in Japan, France and Germany. The institutions' emphasis is on short-term gains rather than long-term support, and they are indifferent to the borrower's liquidity problems, particularly caused by the front-end loading effect of normal short-term loans, exacerbated by high interest rates. The response needed is the provision of longer-term credit at low and preferably fixed nominal interest rates which, by improving cash flows, will enable companies to invest with confidence.

3. Bound up with this thesis is the view that overmuch attention is paid in this country to capital gearing and hence to the desirability of funding investment out of profits.

Comment

4. The Report does an injustice to the authorities in claiming that they are either ignorant of or indifferent to the cash flow problems of companies wishing to invest with borrowed money. It ignores largely the steps taken by banks in recent years to move beyond their role of providers of temporary financial accommodation through the overdraft system (which sometimes has aspects of permanence) to the provision of longer term loans with flexible repayment arrangements. It gives no recognition to the Government's attempts to stimulate a revival of interest in the bond market through enabling the issue of indexed and of deep discount and zero coupon bonds, which have just the sort of cash flow attractions the Group is seeking.

5. There is no evidence of which we are aware that there is an unsatisfied demand from firms for longer term funds with a lower "cash flow cost". Demand for long-term fixed rate funds from the corporate debenture market is still modest and well below the capacity of the institutions to provide, including facilities available for medium-sized and smaller companies through Investors in Industry. This is not surprising. General economic conditions are bound to colour the willingness of borrowers to borrow long, particularly when they can enjoy flexible facilities from their bankers.

6. We are not aware in any case that "cash flow cost" is a major consideration in firms' appraisal of investment projects. Important factors in a long-term investment decision are: overall strategy, speed of pay-back, external financing constraints and the need to maintain prudent balance sheet and income gearing ratios, and of course the rate of return. Firms are no doubt currently aiming at relatively high rates of return on new investment, perhaps 25 per cent, incorporating no doubt a wide margin for

uncertainties. But the 50 to 60 per cent suggested on page 5 of the Grylls paper as a requisite target seems very wide of the mark.

7. As far as capital gearing is concerned, it is true that the norms generally observed in the UK are more restrictive than in some other major countries. But there are also in the UK better facilities for raising equity. In principle, equity is the best method of funding for a viable firm which is worried about the inescapable cash flow cost of borrowing either in terms of interest of capital. This point is given insufficient weight by the Study Group.

8. In effect, the Group asserts that cheap long-term credits to industry are the only way to prevent economic decline. It does not address itself to the fact that the cost of the subsidies involved in providing finance of this kind have to be met elsewhere in the system, implying either additional borrowing by Government (leading to higher interest rates) or increased taxation. There is no apparent perception that the general effect of incurring these additional costs will make progress towards eliminating inflation and decreasing taxation more difficult, and hence towards a situation where long-term lending should occur spontaneously.

The Group's proposals

9. The Group's first proposal is that medium to long term (ie over 5 years) loan interest should be paid net of corporation tax, the interest not qualifying for relief for corporation tax purposes. The mechanism would be through institutions approved by the Treasury, who would apply for reimbursement of the corporation tax deduction on a regular quarterly basis to square their position. For convenience, a standard corporation tax rate of 50 per cent would be used.

10. This is a familiar proposal which they have advanced before, and which they have discussed with Treasury Ministers and officials at length. There are a number of points to be made:

- (i) The paper says that. "It can be argued that this proposal favours tax exhausted companies". In fact this is beyond doubt. On the reasonable assumption that the majority of tax exhausted companies offer less attractive investment opportunities than the majority of those paying corporation tax, the provision of subsidised interest to the former seems perverse, and even more unattractive than a scheme limited to "picking winners".
- (ii) Pegging the scheme to corporation tax confuses the issue. Given the overhang of unused losses most tax exhausted companies have, the likelihood is that the timing of any "saving" to the Inland Revenue when companies resume paying corporation tax is so remote as to be not worth taking into account. There is therefore implied a straight interest rate subsidy and a straight - and potentially high - public expenditure cost.
- (iii) The scheme would be applicable only to specified sectors. Manufacturing, construction and "most" services sectors are mentioned. Leaving aside demarcation problems, there is inherent difficulty in selecting one sector rather than another on grounds of economic benefit.
- (iv) Although the declared object is not to help only tax-exhausted companies, that would be the outcome. They are already of course able to take advantage of leasing arrangements. (In 1982 leased assets represented an addition of nearly 24 per cent to capital expenditure by industries in the manufacturing sector.)

(v) The proposal recognises the need to prevent arbitrage, but does not say how this is to be done. If as a result of taking on a loan on privileged terms a company was thereby enabled to make other funds available for placing in the market, it would be difficult to sustain the case that it was "round tripping" with the privileged funds. It is not at all clear how surveillance could be exercised effectively even to the point of being able to question a company on the matter.

(vi) There would be a stimulus to bank lending which would be adverse from the monetary policy point of view. (Attempts were made before the last Budget to devise a scheme whereby this particular problem could be got round by encouraging the financial institutions to raise funds by borrowing on the bond market and passing the proceeds through to their borrowers. But no practicable means could be found.)

(vii) No limit is placed on demand, except that inherent in the sectoral limitations and the willingness to borrow of the tax-exhausted.

11. In summary, even if the general case against this proposal did not stand, there are particular features which would make it objectionable.

12. The Group's second proposal is that companies in selected sectors should pay a flat 6 per cent on loans for investment of over 5 years duration. This would again be carried out through the banks, with the latter being reimbursed the difference between the 6 per cent and their normal lending rate.

13. Again this is a familiar proposal. It is open to the general objections of the subsidy approach as well as many of the detailed ones listed to the first proposal. Its one advantage is that it is not biased in favour of tax exhausted companies. But the consequence is that it would be taken up by tax-paying as well as tax-exhausted companies, with corresponding demand effects. The scope for arbitrage would be vast. The banks' lending rates would have to be controlled.

14. The figuring used in the opening paragraph on page 11 is open to much doubt. The cost per job of £1500 looks very low. No account appears to have been taken of deadweight, ie a simple substitution of source of financing rather than additional investment. This could well be very high, as could the displacement of existing output and employment, also not taken into account. Experience suggests that the marginal employment associated with marginal investment is likely to be lower than average. The figure of £35,000 for the Exchequer cost of an unemployed person is inexplicable. The figure produced by the House of Lords Select Committee in May 1982, including "tax losses" was £5,000 per person. In all, the figures appear substantially wrong and hence incapable of sustaining the case put.

Conclusions

15. There is no disagreement with the Group on the objective of providing an environment helpful and attractive to business. The dispute is about means. The argument, although not put in terms, is that the level of interest rates produced by following the MTFS is unacceptably high in terms of lost or forgone industrial capacity and employment. But the cost of the alternatives to the strategy, and the now well-recognised ineffectiveness in other than the short term of the "shot-in-the-arm" approach, are not apparently recognised.

16. At the forthcoming meeting with Mr Grylls and his colleagues, you may think it right to seek to persuade them that the courses they are advocating are inconsistent with achieving the main aims of the Government's strategy. The objective sought is stable growth, and that stability cannot be obtained by large-scale public subventions towards investment activity as an end in itself.



P R GORDON

I.24

FROM: ADAM RIDLEY
1 September 1983

CHANCELLOR

cc CST
 FST
 EST
 MST
 Mr Lord
 Dr Rouse
 Mr Battishill) w/o
 Mr R I G Allen) attach-
 Mr Hall) ments

*Many thanks - to Mr
 & Mrs. I will check
 GB Affairs aware of
 US for New States U.S.*

ELECTION COMMITMENTS ON MATTERS OF TREASURY INTEREST

Here at last is the analysis you have asked for. It consists of a pretty self-explanatory cover-note, followed by the 130-odd key quotations, backed up by extracts from the Manifesto and the briefing for it.

2. You will see that the bulk of the important statements cover, as expected, Health, Social Security, and public spending. There are only at most one or two timeless commitments. In nearly every case the form of words used is on the lines of

"we have no plans for", "there are no proposals to", it is not our present intention"

and so on. However some of the statements are pretty crisp even so.

3. There are only a few real surprises: Mr Tebbit's seemingly endorsing negotiations with the Civil Service Unions about Megaw; the PM abandoning the 25% income tax rate target, and ruling out a further shift in taxes from earning to spending; and an unheralded target for another 1/2 million council home sales in this Parliament. Equally there are no important statements in many sensitive areas such as Defence, public sector pay, or Europe.

Surely the Govt were already committed to this?

4. I should warn that even this magnum opus, for which Miss Deyes in EB deserves much credit, has had to be selective. There are plenty of other interesting statements known to us which could become significant in certain circumstances.

5. If you or other recipients want to pursue any quotations further, I would strongly advise studying them in the context. The compact format used sometimes unavoidably fails to convey their full significance. Miss Deyes, Lynda Rouse and I all have a pretty full set of the basic sources.

6. For obvious reasons, I am also sending copies of this work to Stephen Sherbourne at No 10, Peter Cropper and Cecil Parkinson's office. These papers have not so far been circulated widely by officials. I would agree with Mr Allen that Central Unit may consider it worth distributing it to them now - including the Inland Revenue.

AC

A N RIDLEY

ELECTION CAMPAIGN STATEMENTS ON MATTERS OF TREASURY INTEREST

Treasury officials and advisers have analysed speeches, press releases, election press conference transcripts, letters to members of the public, briefing on the Conservative Manifesto and the Manifesto itself to produce as complete as possible a catalogue of comments and important statements on Treasury policy matters. These are catalogued in the attached "digest", in which they are numbered, and sources, dates and so on indicated. Those of particular importance have been asterisked. In the very few cases in which timeless commitments have been given, these have been given a double asterisk. The following compact narrative attempts to pick out all the key points from the full catalogue of statements in speeches, press conferences, broadcasts and letters which covers pages 1-25. References are to the numbering used there. No attempt has been made to highlight the key quotations from the Manifesto or the Conservative Research Department's briefing on the Manifesto which are contained in annexes 1 and 2. Nonetheless these are worth at least a glance, and represent if nothing else important indications as to what Ministers had in mind at election time.

Key Statements

Items 1-50 cover the general background for the Manifesto, and broader issues of economic policy. The most noteworthy comments are:

32/33.

Mr Lawson offers the personal view that unemployment may well start to fall in 1984.

41. The Prime Minister denies that she had rejected the post-war commitment to successive governments to maintain full employment.

Items 42-49 contain a number of unequivocal, if obvious, pledges on local government reform.

47. Outlines the new deal for industry as regards industrial and commercial rates.

48. Affirms local sales tax is dead.

49. Says the Government would wish to consider rating revaluation.

On pay and pensions matters,

51. Involves Mr Tebbit committing himself to discussions with Civil Service unions about pay bargaining on Megaw lines.

52. Commits the Government to action to protect early leavers if the industry will not make progress by voluntary agreement.

Nearly all the statements on taxation in items 57-63 merit a note.

57. Promises further improvements in tax allowances and reliefs, further cuts in NIS, and further cuts in personal taxes.

59. Records the death of the 25% target for the basic rate of income tax.

60. Sees the PM refusing the dichotomy between tax cuts or dismantling the Welfare State.

61. Records there are no plans afoot for further shifts from taxes on earning to taxes on spending.

63. Records the Government is still interested in unifying tax and social security, but worried by the cost.

Items 64-74 deal with public spending, secret Manifesto, etc.

64. Implies there are no unpublished plans for tax increases or spending cuts, and asserts "no intentions that are not disclosed in the Manifesto".

65. Denies that the logic of the 1982 LTPE exercise is false, or incompatible with subsequent decisions in the White Paper and the Manifesto. But it also observes that expenditure plans have to be reviewed every year, and appropriate changes made in the light of likely growth in the economy.

66. Records it is a matter of "the utmost prudence for any Finance Minister to try and assess long-term alternative hypotheses on the basis of which his colleagues can then fix their spending plans for the future", and denies there is a secret document behind or alongside published plans.

68. Refuses to accept that the bleak alternatives of major tax cuts or an extra £15 bn in taxation. It also records the then Chancellor as saying he expects no further cuts.

70. Comes close to committing the Government not to set a cash figure for public spending lower than the cash figure of the previous year.

71. Evades the issue of whether the public spending figure in real terms could be lower in one year than the preceding year.

74. Records usefully that public spending has to be reassessed every year, and the relationships between demand-led and cash-limited spending adjusted.

Items 77-83 cover Education.

78. Records the Government's aim to continue to improve provision for the under fives as resources allow.

79. Comments that there are no proposals for education fees, and that the Government does not believe vouchers are a feasible way of extending choice.

80. Reiterates the Government's commitment to wider parental choice within the maintained sector.

82. Offers a clear carefully qualified formula on student loans: no present intention of replacing any part of grants by loans, but the search continues for ways of widening access to higher education, in which student loans may have some part to play.

83. Commits the Government to hold spending on higher education steady in real terms after 1984-5 and offers a harder formula on loans, viz. "at present no plans to replace any part of the student grant for first degree course by a loan".

Items 84-87 cover Employment measures. The only pledge here is:

85. To maintain special measures as long as unemployment remains high.

Items 88-107 contain massive important comments on Health and Personal Social Services.

88. Pledges the Government to continue to maintain the NHS.

89. Records the Health Service is safe with the Conservatives and that the PM has "no more intention of dismantling the Health Service than...of dismantling Britain's defences".

90. Pledges maintenance of the NHS in the future as in the past.

92. Says that NHS spending plans will be subject to further upward review, but there is no question of a downward review on the White Paper figures.

94. Denies there is a possibility of privatising or changing the basis of the NHS at all.

95. Adds the Government has no intention of changing the finance of the NHS.

96. Reaffirms the principle that health care should be provided for regardless of ability to pay.

97. Rules out compulsory health insurance as a way of financing or privatising health care.

98. Says no plans exist to give more tax concessions to private health insurance, but it will be something for a future Conservative Government to consider.

99. Denies the Government intends to subsidise private health, and says there is no target for how big the private health sector should be.

100. Reiterates the 1979 election undertakings that there will be no charges for visits to the doctor or stays in hospital.

101. Repeats the point that no responsible government can promise never to increase prescription charges, and observes that "the exemptions remain".

103. Records that the Government, Treasury and DHSS have no commitment to introduce a cash limit on Family Practitioner Services.

104 and 105. Records the cash increases in spending (implicitly the net figures) on the NHS this year and in the two years to come.

106. Makes it fairly explicit that the Government will not necessarily compensate the NHS for uncovenanted-for increases in costs.

Items 108-112 deal with Housing.

109. Commits the Government to selling another half a million Council houses in the next Parliament.

112. Asserts the Government sees a continuing role for both Local Authority and housing associations housing.

Items 114-122 cover Pensions and other Social Security benefits.

114. Reasserts that retirement pensions will be price protected.

116. Observes there are "no plans at present" for changing the arrangements for the financing of state pensions, or the earnings-related component of the state pension system.

117. Pledges the removal of the earnings rule "as soon as we conceivably can".

118. Extends the price pledge to the other linked long-term benefit.

119. Records the necessary truth that unemployment benefit, which is not price-protected, could be allowed to fall in real terms in future as inflation rises.

120. Plays down the likelihood of such cuts.

122. Chronicles Mr Fowler reading into the record at a Press Conference the full list of "pledge benefits", and adding the gloss that the Government would aim to continue to price-protect unemployment and child benefit as it has done in the past, though neither is "pledged".

Items 123 and 124 on Child Benefit are terse, but very much to the point.

123. Denies plans to means test, and

124. Records "there are no plans to make any changes to the basis on which the benefit is paid or calculated".

Item 126 on Death Benefit refuses to offer a pledge to increase the death benefit (apparently even in cash terms), but adverts to the Government's intended consultative document on this subject.

Items 127-131 deal with National Insurance.

128. Refuses to pledge to hold NI contributions constant.

129. Expresses the contrary hope that NI contributions will remain very much at the same level.

130. Reiterates that there will be no privatisation of the NI scheme.

Item 133 pledges the Government to continue inflation-proofing of public service pensions.

Items 134-137 deal with Transport.

135. States that concessionary fares will be continued when the new London Transport authority is set up.

136. Says the Government will have an opportunity to review Mersey Tunnel finance when the Metropolitan counties are abolished.

DIGEST OF CAMPAIGN COMMENTS ON MATTERS OF TREASURY INTEREST

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1. Quotations from Manifesto
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STATEMENTS IN SPEECHES, PRESS CONFERENCES, BROADCASTS AND LETTERS.

GOVERNMENT POLICY AND THE MANIFESTO

1. "I could not conceive of any administration that I would lead being extreme. It has not been extreme in the last 4 years, the Manifesto is not extreme, and our philosophies are not extreme in any way." PM at morning Press Conference 8 June.

2. Asked by Sir Robin Day whether if she got a big majority "this would encourage you to go forward with...policies that are perhaps a little more "Thatcherite" than some of those in the Manifesto", the PM replied: "No, I shall carry on in exactly the same way as I have in the last 4 years". Panorama 31.5.83.

3. "There were no extremes in the last four years. There are no extremes in our Manifesto. And there will be no extremes in the next five years either". PM at Fleetwood 7.6.83.

4. The PM was asked at the morning Press Conference on 6 June if she would do only what was in the Party Manifesto, and replied: "No...we have laid down the broad directions of our general policies in the Manifesto, and made certain specific promises...frequently things come up during the lifetime of a Government and of course one deals with them...But all of them would be within the scope of the present Manifesto policies and philosophy."

UK ECONOMY GENERAL [see also Annex 1 item (i)]

5. Costs of proposals [see also Public Spending paras.] "Our costs have been calculated; they are already included and have been published in all the forward expenditure programmes which you have seen." PM in morning press conference 18.5.83.

6. "Our task is not yet done. We, the British people, walk taller than we did in 1979...But we still have a long way to go together before we have fully restored the pride and the prosperity that we know should be ours." PM in News of the World 5.6.83.

7. In her Edinburgh speech on 31 May, the PM referred to the Williamsburg meeting and stressed that all those present "agreed that to sustain recovery...we must all focus on achieving and maintaining low inflation and reducing interest rates. And we all renew our commitment to reduce budget deficits by limiting the growth of expenditure".

Exchange Rate [see also Annex 2 items 1-2]

8. "As is well known, the exchange rate of sterling is one of the factors we take account of in determining our monetary policy. We shall continue to do just that...to promote a fall in the value of sterling would be profoundly unhelpful to economic policy in this country in every respect." Sir Geoffrey Howe at morning Press Conference 8 June.

Financial Framework [see also Annex 1 item (ii) and (xi)]

9. "Interest rates are not wholly within our gift...interest rates are affected not only by your own economy but by other economies...what we do can exert a downward pressure on them. And one way of exerting a downwards pressure on them is by limiting the amount the Government borrows." PM at morning Press Conference 23 May.

10. "Government borrowing is under control - that keeps interest rates down and mortgage rates down". PM in D. Mail article 8.6.83.

11. "We have laid out our plans for the next 3 years on government spending...they are all laid out to see. The assumptions on which they are based are laid out for everyone to see. Any sensible government, like any sensible business, must keep its expenditure within its income, plus within reasonable borrowing at reasonable interest rates." PM on "Weekend World" 5.6.83.

12. In interview with Financial Weekly published 27.5.83 Sir Geoffrey Howe is reported to have said "that the recent surge in money supply, and the public sector borrowing boost at the end of the 1982-83 financial year, are not yet a cause of major concern".

Government and Industry [see also Annex 1 item (iii) Annex 2 items 3-4]

13. "As a Government, we shall do everything in our power to help businesses, large and small

- to cut costs by keeping inflation down and keeping taxes down and keeping interest rates down;
- to increase incentives and rewards for effort and success;
- to satisfy our customers across the world". PM at Finchley 19.5.83.

4. "Lower costs, higher sales, more jobs - that's the way it works. That's the way this country will increase the employment we all want to see". PM at Harrogate 26.5.83.

15. A paper agreed between Mr MacGregor and Mr Parkinson, and circulated to small business groups and the media, set out Conservative Party Policy towards small business. It included the following indications of future lines of policy:

- continue the policy of reducing inflation...and through this and continued success in reducing Government borrowing keep the pressure on for lower interest rates;
- build on the 100 plus measures that have been introduced to help small business - in particular encourage financial institutions first to take the risk and...to enable businesses to start and then to finance growth...;
- encourage use of the business expansion scheme and monitor its progress...;
- continue to stimulate the private sector and local authorities to provide an adequate supply of small sized premises...;
- introduce more measures to stimulate small business to compete on level terms for Government and local authority contracts;
- continue to expand services of Department of Industry's Small Firms Division...continue to publicise this...;
- continue to reduce legislative burdens, including form filling and 'red tape'.

Growth

16. Asked in the context of projections for the rest of the decade whether the Government had "effectively abandoned any idea of growth", Sir Geoffrey Howe replied: "No. Absolutely not...Nobody can forecast with certainty at what level growth will actually take place". BBC2 5.6.83.

17. Speaking at the morning press conference on 20 May, Sir Geoffrey had said: "Virtually every figure that has appeared since the beginning of this year shows that there is taking place an improvement in the economy...last year our economy grew by 1 per cent, the first time for many years that we were growing, when the rest of the world was still moving backwards. This year we should grow twice as fast as that".

Industrial Relations [see also Annex 1 item (iv)]

18. We want to finish restoring the balance between unions and employers and between unions and their own members...For the first time, many of them will have the chance to choose whether or not to join a union. For the first time in many unions, they will be guaranteed a right to choose their leaders by ballot. For the first time many union members will be able to choose for themselves whether or not to go on strike - and to choose by secret ballot, without intimidation." PM at Birmingham 5.6.83.

19. "We have decided to legislate to give trade unionists a right to elect the governing bodies of their own unions...to ensure that every trade unionist will have an equal and unrestricted opportunity to vote in secret by marking a ballot paper in a direct election to elect the governing body of his union...Secondly we shall legislate on the issue of the political funds of unions...we shall invite the TUC to discuss with us what measures they would propose to ensure that there is a free and unfettered choice on whether the levy should be paid or not. If those talks are unsuccessful then we shall have no hesitation but to legislate...Third we shall take measures on the need to get more strike ballots before men are called out on strike. So we shall legislate to withdraw immunity from strikes which are called without a ballot having been held...Finally on the essential services; we shall consult again with the unions on how we should proceed to specify particular essential services in law to construct procedural agreements...and then we should legislate also to ensure that if those procedural agreements were not honoured then there would be immunity for such strikes". Mr Tebbit at morning press conference 18.5.83.

20. The difference which I propose is that where a trades union gives official support to a trade dispute - to a strike - where they back it up at all, then if there's not been a ballot, the trades union's funds would be at risk...if it's a flash strike, as long as the trades union leadership doesn't support it, the trades union leadership and their funds are not at risk. There is no question of course of prison". Mr Tebbit at morning Press Conference 3 June.

21. Asked [presumably] about employer sanctions Mr Tebbit said: "As to layoffs...it could be represented that that gave an unfair advantage to the employer. I don't say it necessarily would, but I don't believe we are at that stage today where it could clearly be shown that lay-off powers are necessary...I have no proposals to bring forward such law at present".

Inflation Outlook [see also Annex 1 item (v)]

22. "We no longer have to worry, as we did 4 years ago, that inflation is running riot. The housewife, whose shopping for food had become a nightmare of ever rising prices, now knows the bill will vary little from one weekend to the next". PM in News of the World 5.6.83.

23. At the morning Press Conference on 25 May the PM was asked about NIESR forecasts that the annual inflation rate would rise to 6.5 per cent by the end of 1983 and 8 per cent by the end of 1984. She pointed out theirs was only one among a wide range of outside forecasts and added "I believe we can sustain a low inflation economy and that we can improve upon the present figures".

24. "Even 4 per cent a year is too high...in the next Parliament we shall aim to bring it lower still". PM at Cardiff 23.5.83.

25. Asked about the future course of inflation in relation to the PSBR forecast, the PM made reference to the effect of changes in the exchange rate, saying: "There's always that factor, which is not a factor in long-term inflation but which is a factor in short term prices. I hope if the pound rises against the dollar that we shall not get that increase in inflation to the extent which we had forecast in November. But you always have to watch the control of your money supply, your public expenditure within your own country, and then of course the exchange rate can have an effect on prices. One does not have full control on that because the amounts of money moving around the world are far greater than our reserves, so we can't control it". Weekend World 5.6.83.

26. At the morning Press Conference on 20 May Sir Geoffrey Howe had already said: "There is no reason whatever to expect an upsurge in inflation at the end of this year or any time thereafter".

Jobs and unemployment [see also Annex 1 item (vi)]

27. "Lasting jobs, real jobs, will come with lower inflation, and with lower interest rates, with the new industries we are helping, with the new products we are supporting, with the small businesses we are backing. And when they come, the one thousand million pounds a year we are spending on training, especially on skills for our young people, will begin to pay off". PM in News of the World 5.6.83.

28. Asked about rising unemployment, the PM said at the morning Press Conference on 26 June that she would "be astonished if unemployment rose above 4 million". [Mr Tebbit at Press Conference 3 June also stated: "Personally, I don't believe it will go over 4 million".]

29. Asked when she thought unemployment would start to come down, the PM said: "I am very wary of predicting when. I know the opportunities are there. I go round and see...new companies starting...But some of the older industries are still in difficulty...And those are still coming down while the others are going up. But the new jobs are coming...I believe that...there are more opportunities and that there'll be a good chance if those opportunities are taken. And if people give us a fair chance then unemployment will come down". Panorama 31.5.68.

30. Asked whether unemployment would fall during her next term of office, the PM said: "I believe it will. I cannot promise it" and went on to emphasise personal responsibility in the workforce, need to avoid damaging strikes, etc. Panorama 31.5.68.

31. On BBC TV on 8.6.83 the PM was more explicit: "The opportunities are there; the numbers of unemployed should be down certainly by the middle of the next Parliament".

32. At the morning Press Conference on 30 May Mr Lawson had said: "In my judgement, all the signs are that there is a very good prospect that by next year we will see the start of a fall in unemployment...my best guess is that unemployment may well start to fall next year - but that is my own opinion and you can judge it and take it for what it is worth".

33. Mr Lawson at Cleveland on 26.5.83 had referred to the causes of unemployment as being "many and complex, of which the two most important are the world recession and the behaviour of the trade unions - in pricing men out of jobs - in driving employers to bankruptcy - in driving valuable orders overseas". He pointed to the deterioration in the rate of increase and said "next year there is every prospect that unemployment will start to fall".

34. Asked in her Panorama interview whether she attributed the increase in unemployment entirely to the world recession the PM said: "Not entirely, no. I think there are four reasons. One is the world recession. Another is that at the same time we've got all the newly industrialised countries of the Far East producing the goods which we used to produce and marketing them here and overseas; that is new competition. Thirdly, we've got new technologies coming. The first effect of those new technologies is as you know is to take away unskilled and semi-skilled jobs. The next effect is to create more jobs, and more jobs are being created now, because it makes possible all sorts of product that we never thought

f before. The fourth one in this country is that we were hit harder because we had never dealt with certain things in the past - overmanning, restrictive practices. For the whole decade of the seventies our inflation was at a higher rate than that of our competitors. And, one of the worst things of all, people regarded themselves as having an absolute right to increase in pay regardless of output, and regardless of industrial performance. Those things were worse here". Panorama 31.5.83. [The same four reasons, in a different order, were given by the PM at the morning Press Conference on 25 May.]

35. Sir Geoffrey Howe in BBC Election Call on 25 May, attributed to world recession "at least half" of the rise in unemployment since 1979, and added: "The other half is due sadly to conditions which we have generated for ourselves in this country over many years. First, when we came into office we were experiencing a dramatic explosion in pay claims...and that in itself made a major contribution to the particular unemployment problems facing the UK and priced many people out of jobs. The second thing, which is even more fundamental than that because it is more long standing, is the long running decline in our economic performance".

36. "If you are not prepared to finance reflation and inflation [reference to Opposition proposals] then what is taken out in pay is a crucial component in deciding when - instead of merely a reduction in the rate of increase to unemployment - it actually starts to fall". Mr Brittan at morning Press Conference 30 May.

37. Pressed in her TV Eye interview over having said nothing to give encouragement that unemployment would be "other than up a year tomorrow" the PM said: "I think there's a very great deal" and then itemised progress on inflation, the fall in interest rates, help to small businesses, encouragement of new technology, and training schemes. "Now all of that is very, very positive". TV Eye 2.6.83.

38. Asked on Weekend World to confirm whether she relied on reducing unemployment by getting inflation down even further rather than by spending money, the PM said: "I don't believe you can go on spending money you haven't got...But equally, although we have to go on getting inflation down, because it can do so much damage to society, so much damage to investment, can make us so uncompetitive with others, that is not enough and I've never said it's enough...there must be incentives to enterprise, you must want to see a successful society, you must keep good managers, people here who can build up new industries and create new jobs, you must get into the science and technology of tomorrow. So inflation getting down, that is a necessary but not a sufficient condition. And that's why you'll find we've always put so much stress on trying to get taxation down and trying to encourage a successful attitude to society". Weekend World 5.6.83.

39. Asked on Panorama whether she denied any responsibility for the increase in unemployment since 1979 the PM said: "In putting inflation top priority to get it down it meant that in the short-run we'd have a bigger increase in unemployment. It means in the longer-run - and the longer-run is that which will happen in the next Parliament - in the longer-run our jobs will be better and more secure and have better prospects for the future". Panorama 31.5.83.

40. Asked whether her policy for continuing to reduce inflation required a further increase in unemployment, the PM said: "No, it does not. What is more, the policy of reducing inflation now is protecting the jobs of the twenty-three-and-a-half-million people in work. And if we ever went to a higher - policy of high inflation, many many of those twenty-three-and-a-half-million people in work would be very very fearful indeed". Panorama 31.5.83.

* 41. Asked whether she rejected the post war tradition of Government responsibility to maintain full employment, the PM said: "No I have not" and went on to quote from the 1944 White Paper "The success of the policy outlined in this paper will ultimately depend on the understanding and support of the community as a whole, and specially on the efforts of employers and workers in industry, for without a rising standard of industrial efficiency we cannot achieve a high level of employment combined with a rising standard of living"; "For if an expansion of total expenditure were applied to cure unemployment of a type due not to absence of jobs but to failure of workers to move to places and occupations where they were needed, the policy of the government would be frustrated and a dangerous rise in prices might follow..." and "Workers must examine their trade practices and customs to ensure that they do not constitute a serious impediment to an expansionist economy and so defeat the object of a full employment programme". Summing up: "...you see that policy for full employment is the policy which I am pursuing". Panorama 31.5.83.

Local government relations [see also Annex 1 item (vii); Annex 2 item 5]

42. "In the next Parliament we're going to make sure that every rate payer is protected against unpredictable and unreasonable rate increases by high-spending councils. We're going to take reserve powers to impose a general limit for rate increases on all Local Authorities. And we're also going to abolish the wasteful, unnecessary Metropolitan Councils and return most of their functions to great cities like Birmingham". PM in Birmingham 3.6.83.

43. "We shall abolish the GLC and the Metropolitan Councils. We shall abolish them and we shall return their functions - the vast majority of functions will in fact return to their constituent boroughs...[This] will obviously need detailed consultations on the

Implementation ...That proposal...is one that this Conservative Government intends to take at the earliest opportunity". PM at morning press conference 18.5.83.

44. "We will have the earliest consultations after the Election to establish how quickly we can proceed on the Metropolitan counties; obviously staff are involved, services are involved, and we are anxious to see...that proper arrangements are made...Detailed arrangements will be taken in hand at the earlier possible dates". Mr King at morning Press Conference 26.5.83.

45. "There are a large number or a number of very very big spenders whose rate increases are quite excessive. We shall introduce legislation to curb those and at the same time we shall introduce general powers to limit the increases in rates. We hope we shall not have actually to bring those powers into operation but we shall take legislative powers to do so". PM at morning press conference 18.5.83.

46. "We would propose to include both schemes in our opening legislation so that they would be in one Bill". Mr King at morning Press Conference 26.5.83.

47. "In addition...we shall provide a statutory [duty] on every local authority to consult with industry and commerce before fixing rate increases and their expenditure for the year...we shall extend to a wider range of businesses the opportunities which are available to the smallest businesses at the moment to pay their rates by instalments...and we shall also stop the rating of empty industrial property...". Mr King at morning press conference 18.5.83.

48. Asked whether the Government's proposals meant that 'the bogeyman of local sales taxes' was dead, Mr King said 'Yes'. Morning Press Conference 18 May.

49. In a letter to the Machinery Users Association dated 6 June signed by the PM she wrote "The question of revaluation for rating purposes is certainly one the next Conservative Government will wish to consider".

North Sea Oil

50. Mr Lawson at the morning Press Conference on 30 May said: "It is going to play a major role for a very long time...it will probably peak quite soon, in about 1985, but...we had a number of tax reliefs in the Budget designed to encourage...development...I think we will continue to be self-sufficient in oil well into the 1990s and it will continue to play a very large part in our economy well into the next century".

Pay and Pensions [see also Annex 1 item (viii) Annex 2 items 49-54 and paras 106, 113 and 132-133 below]

* 51. "I hope that people seeing inflation falling, and being convinced that inflation will remain low, will continue to make prudent pay bargains which will keep down the price of their products and will help to get more people back into work. As far as central Government is concerned, of course, we continue the discussion on Megaw with the central civil service, and of course we look with concern on public sector pay rises if they are beyond what the tax payer could afford. But we have to see what happens in the Megaw discussions on central pay bargaining". Mr Tebbit at his 3 June press conference.

* 52. "On early leavers...we are quite determined to make progress in that area. We will be having a very earlier conference [with the pensions industry]...just after the Election...if we cannot make progress by voluntary agreement, we've already made it clear that legislation would be taken to protect the interests of the early leaver". Mr Fowler at morning Press Conference 24 May.

Privatisation and the nationalised industries [see also Annex 1 item (ix) Annex 2 items 6-11]

53. "In the next Parliament there will be further steps along that road...new technology is transforming British Telecom and other companies - British Airways, Rolls Royce, large parts of British Steel which should be free to compete, BL, British Shipbuilders and so on." Mr Jenkin at morning Press Conference 30 May.

54. "We have not given a categorical assurance of being able to privatise the whole of BL during the next Parliament...But large parts of it could be...that is for the Board to pursue". Mr Jenkin at morning Press Conference 30 May.

55. "I think the best thing to do for [the industries in the public sector], very often, is to denationalise the extraneous parts of their organisation, so they can concentrate on conducting the main business more efficiently..." Mr Lawson at morning Press Conference 30 May.

56. In a letter to the British Telecommunications Union Committee signed by the PM dated 27 May she said: "Our Manifesto states our aim is that British Telecom - where we shall sell 51 per cent of the shares to the private sector - shall become a private company...we shall be reintroducing the Telecommunications Bill which failed to reach the Statute Book because of the General Election".

Taxation Objectives [see also Annex 1 item (x) Annex 2 items 12-23]

* 57. In the morning Press Conference 18 May to launch the Manifesto the PM said: "...[we] will continue to make further improvements in tax allowances and tax reliefs. We hope to do better on National Insurance Surcharge...We've gone a long way towards reducing it and we hope as prosperity increases to be able to allocate further amounts towards direct tax reductions on individuals...and later in the same Press Conference: "... Most of us would wish to see that increasing prosperity should benefit the individual by a reduction in personal taxes." [Mr Leon Brittan in a Press release on 13 May stated that the Government remained committed to "continued reductions in personal taxation".]

58. Mr Lawson at the morning Press Conference on 30 May said: "I hope that we will have opportunities in the next Parliament to reduce the level of income tax still further."

* 59. A questioner at the morning Press Conference on 18 May asked: "What is the specific target for income tax? Does it remain at 25 per cent?" PM: "Well, we don't have a specific target excepting...reducing the total tax burden on individuals."

* 60. Asked on TV Eye 2.6.83 whether any future income tax cuts would be compatible with meeting the cost of the Welfare State, the PM said: "I believe that as we get expansion - and it's starting now, as you know, it is starting very slowly, but it is starting - I would like very much to ensure that a goodly proportion of the expansion goes back to people, to individual men and women, and to companies, because I believe they spend it better, they spend it more economically."

* 61. Tax balance. In a letter to the Drapers Chamber of Trade dated 1 June, the PM wrote "The 1979 Conservative Manifesto included a pledge to shift from taxes on earnings to taxes on spending, and this was carried out. The 1983 Manifesto included no such pledge, and no plans are afoot for further shifts in this direction."

62. Action on the tax treatment of holiday lettings was quoted by Sir Geoffrey Howe at the morning Press Conference on 6 June as an example of items that "we might try to introduce" in the Summer Finance Bill after the Election over and above Budget items lost because of the Dissolution.

63. Unification of tax and social security systems. Mr Fowler at the morning Press Conference 24 May said: "...we are still interested in it and concerned about it and obviously we are still attracted to the idea about it but...if it was introduced on the basis that was proposed in the early 1970s at a cost of £1.2 billion - now gone up to £5 or £6 billion in

present circumstances we simply cannot make pledges of that kind of expenditure...We will keep it under review".

PUBLIC SPENDING [see Annex 1 item (xi) and on staffing Annex 2 items 24-6]

64. At the morning Press Conference on 6 June there were questions about "unpublished plans" to raise taxation or reduce expenditure if hopes of growth proved false. Sir Geoffrey Howe said: "Our plans have been published for the next 3 years and our Manifesto takes those proposals to the end of the Parliament and there are no intentions that are not disclosed in the Manifesto". Although any Chancellor was theoretically free to cut expenditure or raise taxes by any amount at any time, a Chancellor "operates within the policies of his Government...Our policies are designed to secure an effective control of public spending and the prospect of lower rather than higher taxes".

65. Asked whether the logic in his own memorandum to his Cabinet colleagues in the autumn last year was false, Sir Geoffrey Howe said "It is simply saying that if expenditure exceeds or is likely to exceed income beyond the limits of reasonable borrowing, that is...imprudent...Our plans and our decisions taken since last autumn now published in the White Paper and in the Manifesto take account of those rules of arithmetic and rules of prudent business management". Asked whether that meant that there would still be a PESC exercise this year, he replied: "let me remove any misunderstanding. PESC is as regular a routine in the Cabinet as Christmas and Easter - and it is bound to take place, under a responsible Government". A little later in the same session, he also said "The terms of arithmetic plainly involve relating the pattern of public expenditure to the likely growth state of the economy...", referred to the Labour Government's 1976 crisis by way of contrast, and concluded "Our plans, and our manner of conducting them, are designed to avoid that kind of crisis".

66. In a BBC TV interview Sir Geoffrey Howe said: "We have published our plans for public expenditure for the years immediately ahead in February this year; we published our finance for the Parliament in the Manifesto...It is a matter of the utmost prudence for any Finance Minister to try and assess long-term alternative hypotheses on the basis of which his colleagues can then fix their spending plans for the future. We have done that and we have reached our conclusions and published our spending plans for the rest of this Parliament (sic) and there is no question of a secret document sitting behind or alongside them". Sir Geoffrey Howe on BBC2 5.6.83.

* 67. Mr Leon Brittan at the morning Press Conference on 30 May said: "We are fighting this Election on the Public Expenditure White Paper published this year and we have not got any plans beyond that".

* 68. Asked on BBC TV 5 June whether he would be unable to maintain the Welfare State as it is at the moment, by the mid-1980s, without an extra £15 billion in taxation or cuts, Sir Geoffrey Howe said: "I do not think that either of those things will be necessary. We have looked at the prospects: we have taken up and formulated our plans in order that they may be fulfilled. Our plans were laid before the public on a prudent and responsible basis...Every Finance Minister in the world...is facing the realities of a need to contain his expenditure, to avoid inflation going through the roof, to avoid interest rates going up..."

* Interviewer: "So you expect further cuts?"

Sir Geoffrey "...I expect no such thing".

Interviewer: "Well why the warning?"

Sir Geoffrey "We will be planning our expenditure on the basis we have presented to the people: responsibility over the last four years without being driven to the IMF".

69. Relationship Economic Strength and Welfare Spending. "Getting the economy right is the best way of continuing to look after the most vulnerable among us. That is real caring. Constructive practical caring. Because in the long run it is prosperity which guarantees protection." PM in News of the World, 5.6.83.

* 70. Cuts Asked whether she would give a pledge not to cut public expenditure in the lifetime of her next Government, the PM said: "...I have never known in my 30 years in politics any government...which has actually cut expenditure below the expenditure of the current year. Can you mention one? I can't". Weekend World 5.6.83.

* 71. When the question was rephrased to refer to a cut in real terms the PM replied: "Ah, but we no longer budget in real terms. We budget in the way any business budgets, we budget in the way any household budgets: 'What is the actual amount of cash I've got? I've got to keep my expenditure within that'." Weekend World 5.6.83.

* 72. Asked whether there wouldn't need to be further cuts in government spending, to reduce inflation, the PM said: "No, I don't think you're being right, logically, because I think you have not taken into account that in the end the degree of inflation you have in the longer run, the relationship it has is to your money supply..." Weekend World 5.6.83.

3. Pressed about the implications for real provision if inflation exceeded expectations, the PM said: "I don't expect that over the lifetime of the next Parliament that we are going to run policies which will lead to inflation rising, we are going to fight it; and secondly, and even within the actual inflation - let me give you an example, we managed to get more capital projects out of the same amount of capital expenditure because of the firm kind of financial policy we've been running. The tenders went down, and we actually got more roads and more schools tendered for within the same amount of money. This is sound financial policy and I'm going to stick to it. What I'm saying is that we've got a certain amount to spend and will spend as best we can." Weekend World 5.6.83.

74. She added: "I am equally going to say I have to look at public spending every year and afresh." The same phrase was used at the 23 May morning Press Conference when the PM said: "You revise your public expenditure each year, because new demands come up. Not all of your public expenditure is cash-limited; some of it is demand-led, and each year you look afresh at your public expenditure when they are published".

Defence [see also Annex 1 item (xii)]

75. Asked at the 18 May morning Press Conference about the omission of a mention of Trident from the Manifesto, Mr Heseltine said: "We are committed to the purchase of the Trident system as a replacement of the Polaris submarine system and we are committed to the maintenance of an independent British nuclear deterrent which this present Polaris and the future Trident submarine system represent."

76. At the morning Press Conference on 25 May he said: "We're very anxious to see a satisfactory agreement with the Soviet Union at the Geneva Intermediate Range talks, but we've made it absolutely clear...that if we don't get a satisfactory agreement then we shall proceed on time with the deployment of the Cruise missile systems in Britain and in the Continent of Europe".

Education [see also Annex 1 item (xiii) Annex 2 items 27-34]

77. "We believe that access to the State education service should be a fundamental right, and our continuing aim is to improve standards in that service", the PM stated in a letter dated 23 May to the NUT.

78. She told the Association of One Parent Families that "it would certainly be our aim to continue to improve the provision for the under fives as our resources allow". Letter dated 6 June.

* 79. "There are no proposals for fees in education. We have no intention of doing anything of that kind. We're always anxious to find ways of extending the opportunities for choice in education. We do not believe the voucher scheme offers a feasible way of achieving that. We are willing to look at any suggestions...to extend parental choice." Sir Geoffrey Howe on BBC Lunchtime News, 6.8.83.

80. "We didn't mention vouchers in the Manifesto because the idea is only one way...of increasing parental choice. What we are committed to is the search for wider parental choice...if it were considered, purpose is to increase choice within the maintained sector". Sir Keith Joseph at morning Press Conference 1 June.

81. In a letter signed by the PM dated 25 May to the National Federation of Voluntary Literacy Schemes the PM told them "it will certainly be necessary for the next Government to consider whether the Adult Literacy Basic Skills Unit could be expanded and whether such expansion would be the best way of encouraging the work of organisations such as your own".

* 82. Asked at the Party Press Conference on 1.6.83 about student loans, Sir Keith Joseph referred questioners to his recent Parliamentary Answer which stated: "The Government have at present no intention of replacing any part of the student grant by a loan. We remain interested in finding means of widening access to higher education without excessive cost to the Exchequer and in this context will continue to examine the whole system of stringent support. Student Loans may have some part to play in this."

* 83. In a letter dated 7 June signed by the PM the regional AUT was told that for higher education "the intention is to hold the level steady in real terms after 1984-85" that without compulsion on institutions of higher education it could not be guaranteed that every student with two 'A' levels would find a place, and that the Conservative Party "has at present no plans to replace any part of the student grant for first degree course by a loan".

Employment measures

84. "[The] Youth Training Scheme which from September onwards means that no young school-leaver of 16 need go onto the dole if he can't [get] a job; there is a full year of training and work experience open to him or her." Mr Tebbit at morning press conference 18.5.83.

* 85. In a letter dated 25 May to Church Action on Poverty, the PM wrote: "The Government has an impressive record in helping the unemployed; we have committed over £2000 million this year to training and special measures for the unemployed. As long as

Unemployment remains high we shall maintain special measures of this kind which bring effective help to many of those who have no job".

86. "From the autumn of this year, all school leavers without a job will be guaranteed a year's training". The PM in a letter dated 6 June to the Unemployment Alliance.

87. "I am confident that [in YTS] as well as TOP we will meet the Christmas undertaking this year". Mr Tebbit at Press Conference 1 June.

[Falklands - see Annex 2 item 35]

Health and Personal Social Services [see also Annex 1 item (xiv) Annex 2 items 36-39]

* 88. NHS. "We shall of course continue to maintain the Health Service". PM at morning Press Conference, 18 May [repeated in PM's speech at Fleetwood 7.6.83].

* 89. "I understand that Labour is suggesting that the Tories would undermine or dismantle the NHS...I said it last year: The Health Service is safe with us. I have no more intention of dismantling the Health Service than I have of dismantling Britain's defences". PM in speech at Edinburgh 31.5.83. [This formulation was repeated almost word for word in the Panorama Interview 31 May and in PM's Birmingham speech 5.6.83.]

* 90. "We will maintain the National Health Service in the future as we have always done in the past." PM in S. Express 5.6.83. [Same formula used in PM's speech at Birmingham on 5.6.83.]

* 91. "On health, Conservatives will maintain the NHS in the future as we always have in the past. Conservatives will not dismantle the Health Service." PM in D. Mail article 8.6.83.

** 92. "We have set out our spending plans in the White Paper and these plans will be subject to further consideration and upward review if that is necessary. We are not making a commitment on the amount of money we will be spending above what is in the public expenditure White Paper. There is no question of a downward review taking place on the White Paper figures already published." Mr Fowler at morning Press Conference 7.6.83.

93. Hospital building. "There's an excellent programme for new hospitals - £1.1 billion allocated - and there are 140 new hospitals either in the designing stage or being built". PM at morning press conference 18.5.83.

* 94. "There is no question of privatising or changing the basis of the NHS at all. We shall, of course, continue the arrangements for partnership between the public and the private sector which have existed since the health service began. Of course we are anxious and willing to find any ways we can of attracting additional resources into the provision of better health care for the people of this country." Sir Geoffrey Howe on BBC Lunchtime News, 6.6.83.

* 95. "We have no intention of changing the finance of the NHS. As you know, Sir Alec Morrison looked at this and had a major report upon it, and its very interesting. But we have no intention of changing it and it will continue to be financed by taxation." PM in Panorama 31.5.83.

** 96. Asked by Sir Robin Day whether she stood by her statement of October 1982 including the principle "that adequate health care should be provided for all regardless of ability to pay must be the foundation for any arrangements for financing the NHS", the PM said "Yes".

** 97. "At the morning Press Conference on 24 May Mr Fowler stated: "Privatising the health service in the sense of seeking a new way to finance it by compulsory health insurance...we have ruled out".

* 98. Asked at the morning Press Conference on 7 June about 'plans that exist to give tax concessions on private health insurance' Mr Fowler said: "There are no plans", and when pressed further: "I think that it would be something for a future Conservative Government to consider, but there are no plans at the moment".

* 99. Questioned at the morning Press Conference on 31 May on the use of private facilities by the NHS Mr Fowler said: "The criterion is that health authorities make use of the independent sector when it can contribute economically and effectively to the care of NHS patients...We are not in the business of subsidising the private sector but we are in the business of encouraging and stimulating the independent sector just as we are of the voluntary sector..." The Government had not "got any total aim or total percentage aim how big the private sector should actually be."

** 100. Quizzed about undertakings given in the 1979 Election campaign the PM said on Panorama 31 May: "I gave two undertakings: one was that I would not put or not institute charges for stays in hospital nor for going to the doctor. I repeat those pledges." PM in Panorama 31.5.83.

101. Questioned in Parliament about what she had said in 1979 in relation to prescription charges the PM told Mr Foot "If [he] looks at the full quotations he will find a sentence...to the effect that no responsible Government could ever promise not to increase prescription charges. I repeat that now. The important thing is that the exemptions remain". (Hansard 10.5.83 col 734).

102. The PM again declined to rule out any future rise in prescription charges (without mentioning exemptions) when asked about this at the morning Press Conference on 24 May (and on Panorama on 31 May). But Mr Fowler at the 24 May Press Conference laid stress on the exemptions, and was followed by Mr Clarke who said: "There's no reason at all why those people who pay for the 30 per cent of prescriptions which aren't exempt shouldn't make a modest contribution towards the cost of the service".

103. Mr Fowler assured questioners at the 7 June morning Press Conference that there were no plans for cash-limiting the Family Practitioner Services, backed up by Mr Clarke who said: "...the Government and Treasury and DHSS have no commitment to introduce a cash limit on Family Practitioner Services at all". (But he did refer to the study being carried out by Binder Hamlyn into ways to predict the level of spending and make sure of accountability for it.)

104. Asked on Weekend World: "You've also said in this campaign that you would no more dismantle the Health Service than you would dismantle the nation's defences. Does that mean that no matter what happens economically, you give the Health Service exactly the same priority that you give defence for the lifetime of your next Government?" the PM said: "No, because defence - if you look at our expenditure plans - the actual amount is in that expenditure plan because we're committed to spend three per cent more in accordance with our NATO commitment. If you look in the National Health Service, our plans for the future are laid out there, you'll recall that when we came into power there were £7¼ billion being spent on the National Health Service, now there is £15½ billion. That's an enormous increase, an increase which is higher than the increase in prices. If you look at this year and next year and the year after; this year on top of that we plan to spend £700 million more, next year £800 million more, the following year £700 million more." Weekend World 5.6.83.

105. The same figures were quoted by the PM in her Edinburgh speech on 31 May where she described them as "all budgeted for within a sound financial policy. Not a promise but a firm commitment".

106. The PM in her Weekend World interview went on to say: "How that is going to be used will depend considerably on how we manage to negotiate and bargain within the National

Health Service on the wage structure. We've allocated the money but we have constantly to persuade people of the best way in which to use it. I am telling you that £15½ billion is what we are spending now, that we have allocated more for next year, more for the following year, more the year after; and I am equally saying that no system, no government, no democracy will work in this country unless each and every person exercises a degree of responsibility and discipline over what they do." Weekend World 5.6.83.

107. Personal Social Services. "We are committed to a civilised society where the poor and the rich, the disabled and the elderly, are properly cared for - by the community, by their families, by voluntary organisations. State provision, voluntary effort and family support march hand in hand to achieve the best possible life for the needy and the disadvantaged". PM at Wembley Rally 5.6.83.

Housing [see also Annex 1 item (xv)]

108. "It has long been our dream that everyone should have the chance to acquire some property...The best way to start is to buy your own home. Half a million council tenants have already done so. Many more will follow." PM D. Mail 8.6.83.

* 109. "Under the Conservative Government, half a million council houses were sold...In the next Parliament...we want to double that half million to one million, at least, and then go on from there". PM at Birmingham 3.6.83. [In PM's speech at Harrogate 26.5.83 this was worded: "In the next Parliament we shall go full steam ahead...We want to double that half million to one million, at least".]

110. In a letter dated 17 May to Mr G Bowden the PM wrote: "If the Conservatives are re-elected, the Government will be reintroducing the Housing and Building Control Bill...and I can assure you that this will include Clause 1 of the Bill giving the right to buy to council tenants whose homes are on leasehold land (ie whose landlord does not own the freehold)."

111. To the Pensioners Voice, the PM wrote on 25 May: "It is our policy that in public sector housing, a major priority should be the provision of homes suitable for elderly people, together with more sheltered accommodation.

* 112. "We are certainly not wishing to get rid of the public sector at all; we see a continuing and important role for both Local Authority housing and housing associations housing." Mr Stanley at morning Press Conference, 31 May.

Law and Order [see also Annex 1 item (xvi)]

113. "We believe in a police force that is well-manned, well-paid, well-equipped...". PM at Perth 13.5.83.

Pensions and other Social Security Benefits [see also Annex 1 item (xvii) Annex 2 items 40-48]

114. Pensions. "On pensions, we have fully honoured our pledge we gave. Since the Conservatives came into office the retirement pension has gone up by 68 per cent - 7 per cent more than prices. We promise to protect our pensioners in the future too." PM in D. Mail article, 8.6.83 [also "We promise to protect the pensioner against rising prices for the next Parliament too" PM at Birmingham 3.6.83; "Retirement pensions will continue to be protected against rising prices." PM at morning Press Conference, 18 May. "Do not believe the scares and smears put out by our opponents...we WILL protect pensions." PM D. Mail article 8.6.83. "Last year pensions went up faster than prices. The pensioner will keep the extra. There will be no clawback. And we will continue to protect pensioners against rising prices. Each year the pension will be increased by the amount by which prices have actually risen". PM in speech at Edinburgh 31.5.83; "We will continue to protect the value of the pension as we have done over the past four years." PM in S. Express 5.6.83.

115. Mr Fowler amplified this at the morning Press Conference on 7 June saying "It has always been our position that we will keep the pension in line with prices but...if you are asking me whether we're going to return to earnings - or prices - whichever is the higher...the answer to that is no, we're not".

116. Earnings-related pension schemes. "Nor are there plans to change the earnings-related component of the State pensions. The 1975 Act was in fact brought onto the Statute Book with the full support of Conservative Members". PM in open letter to Mr Brynmor John 20.5.83. To Help the Aged she wrote, on 31 May: "This scheme...is financed on what is known as the pay-as-you-go system. We have no plans at present for changing these arrangements for the financing of State pensions."

117. Retirement pensions earnings rule. In a radio interview Mr Fowler said: "I would have liked to have moved faster; I would like to have got rid of it...But we have other obviously competing claims...But we are pledged to remove it as soon as we conceivably can". BBC radio 21.5.83. The PM told The Pensioners Voice on 25 May: "Our Manifesto makes it clear that a Conservative Government would continue to raise the [£57 a week] limit. It reaffirms our aim to abolish the earnings rule as soon as we can".

118. Other Benefits. At the morning Press Conference on 18 May the PM read from the Manifesto passage stating: "In the next Parliament we shall continue to protect retirement pensions and other linked long term benefits against rising prices."

119. At the morning Press Conference on 26.5.83, the PM confirmed that the absence of any undertaking in the Conservative Election Manifesto to index-link unemployment benefit meant that, if re-elected, the Government would retain the option of allowing its value to fall in real terms. [The PM stressed that the problem of unemployment benefit rising faster than wages - with its implications for the "why work?" syndrome - was much less likely to be a cause for concern in a period of low inflation.]

120. Mr Tebbit asked at his press conference on 3 June about hints that the real level of UB would not be maintained, replied: "Mrs Thatcher has not to my belief said that, and as I have no proposals to cut the benefit I don't think the question is relevant".

121. Asked whether "there needs to be a substantial gap between what a man gets by working and what he can get on social security benefits", Mr Fowler replied: "There ought to be, I quite agree. It is one of the problems". When asked how he would deal with it he replied: "It is one of the problems where social security has gone up in proportion with inflation. And that really is why we have put personal allowances up. It is a thing that I constantly have to have in mind". Daily Express 15.5.83.

122. Mr Fowler spelt out at the 7 June Press Conference which benefits are price-protected by Government pledge: "The 'pledge benefits' basically are the pension benefits - retirement pensions, widows pensions, war disablement pensions, war widows pensions, industrial disablement pensions, attendance allowance, invalid care allowance, supplementary pension and long-term benefits of that kind. Unemployment benefits not a 'pledge benefit'...nor is child benefit...but we have managed to price protect those benefits as well...and that would be our aim in the future."

Child Benefit

CHILD
BENEFIT

123. At the morning Press Conference on 25 May the PM was asked about 'rumours' of plans to means test child benefit: she answered "Nonsense. No, no, no."

124. In an open letter to Mr Brynmor John dated 20 May the PM wrote: "There are no plans to make any changes to the basis on which the benefit is paid or calculated".

War Widows

125. Writing to the Officers Pensions Society on 25 May the PM referred to recent improvements for Armed Forces widows and said she hoped there would be scope for more "limited" improvements in future, though she warned that the two main constraints were cost and "the sound working rule that a pensioner is entitled only to the benefits prescribed by his pension scheme at his retirement".

Death Benefit

* 126. Mr Fowler told a questioner on "Election Call": "I can't give you a pledge that we're going to increase the death benefit for everyone as a general benefit throughout the country. It's a matter of priorities". BBC Radio 17.5.83. Writing to The Pensioners Voice, 25 May the PM referred to the Government's consultative document and said: "We are anxious to study possible ways of concentrating more help where it is most needed".

National Insurance Contributions

127. "The National Insurance contribution is not a tax. It is an insurance premium that people pay to ensure that when they're retired they get a pension, if they're sick they have sickness benefit, and because it is an insurance premium that is why people get it [benefit] as of right and it's not means-tested". PM on TV Eye (in context of query about the burden of taxation) 2.6.83.

* 128. "No one could give any promise about not increasing the NI contribution. The whole of the pensions and social security/national insurance system is on a pay as you go basis...as you increase outgoings you have to increase the incomings". PM at Press Conference 24 May.

* 129. Mr Fowler, asked about contributions on BBC radio on 21 May, said: "I very much hope that we will be able to keep the contributions at very much the same level because clearly it is a very real imposition on the working population, and this is a balance that any Government has to hold".

* 130. Basis of scheme. Asked at the Press Conference on 25 May about Guardian report about "privatising" the NI scheme the PM said: "There is nothing in the Manifesto which says we are going to drop insurance in any way. We are not".

131. Unification of tax and social security systems - see 63 above.

Public Sector Pay and Pensions [see also Annex 2 items 49-54]

132. "We believe we've reached a fair settlement of last year's dispute [in the NHS], and one which is in line [with] what the economy can afford, and is reasonable and justified when you look at the kind of increases which people in equivalent occupations in private industry and elsewhere were getting...we are in process of setting up a review body which will give us independent advice on the right level of pay for nurses and midwives, some other professional staff, and we think that is a great breakthrough...we're also going to start discussions with those who represent the main [body] of staff about the way in which we negotiate their pay...we've got to deal fairly with our staff; at the same time we've got to keep within what can be afforded and not spend money at the expense of patient care".
Mr Fowler at morning Press Conference 24 May.

* 133. In a letter dated 3 June to the Public Service Pensioners Council the PM wrote: "the next Conservative Government are pledged to ensure that public service pensions are protected against inflation; and I can assure you that this pledge will be kept. I cannot go beyond this pledge. To link public service pension to increases in earnings could be very costly, particularly as similar provision would have to be made for State retirement pensions. To adjust the pensions of those in the public service who retired during a period of income policy would cost at least £100 million a year and I think that other claims on our limited resources have a higher priority".

Roads and Transport [see also Annex 1 item (xviii) Annex 2 items 55-59]

134. "In the Department of Transport one of our highest priorities is the maintenance of a vigorous road programme with the emphasis on roads which aid economic recovery". Mrs Lynda Chalker in Banbury 29.7.83. Also on the same occasion: "We are awaiting the Inspector's report [on the proposed Banbury bypass section of the M40]. I cannot make any commitment in advance of the report and our response to it. However, if the Inspector's report supports the building of the M40 extension, work would be started about the end of 1986, which would mean completion around 1988 to 1989".

* 135. In a radio interview Mr Howell mentioned that when a new London Transport Authority was set up, steps would be taken to ensure that concessionary fares continued.

* 136. Mrs Chalker stated during the campaign that the abolition of the Metropolitan counties would give the Government an opportunity to review the financing of the Mersey Tunnels.

137. Writing to the Railway Development Society, the PM on 6 June said that there was no programme of major BR closures; the network maps in the Serpell Report were "no more than broad illustrations". The Government was committed to electrification, though projects must be assessed on their commercial merits. The question of reopening railway lines was a matter for the BR Board.

EUROPEAN COMMUNITY [see also Annex 1 item (xix)]

138. "On Europe, Conservatives - who have stood up strong for Britain's interests - will keep this country in the EEC." PM in D. Mail article 8.6.83.

139. "Within the EEC we are pledged to bring down our budget commitment". Lord Hailsham in 27 May press release.

MANIFESTO QUOTATIONS

(i) UK Economy General

The Manifesto lists as the first of "five great tasks for the future":

to create an economy which provides stable prices, lasting prosperity and employment for our people. (page 8)

(ii) Financial Framework

We shall continue to set out a responsible financial strategy which will gradually reduce the growth of money in circulation - and so go on bringing inflation down. (page 10)

(iii) Government and Industry

We will:- promote, in partnership with industry, the Alvey programme for research into advanced information technology; accelerate the transfer of technology from the university laboratory to the market place, especially by the encouragement of 'science parks'; help firms to launch new products through pilot schemes and public purchasing; build on the success of our Micros in Schools Scheme and our network of Information Technology Centres for the young unemployed so that they are equipped with tomorrow's skills; sanction the launch of new cable networks. (page 20)

We shall continue to maintain an effective regional policy...we do not propose sudden changes...but we will:- make sure that these policies are economical and effective in creating genuine jobs; secure more effective co-ordination between central and local government and the European Community's Regional Development Fund; further develop local self-help initiatives the 24 Enterprise Zones and...duty free trading zones...in certain experimental 'free ports'; diversify regional economies by encouraging the fullest use of our schemes for innovation. (pages 20-21)

We shall continue to ensure that our taxation and licensing policies encourage development in the North Sea...We shall press ahead with the development of safe nuclear power...we shall set up an Energy Efficiency Office to co-ordinate the Government's conservation effort. (page 21)

We shall legislate [on making more farm tenancies available] at an early opportunity.

(page 23)

During the next Parliament we shall introduce measures to restructure the fishing industry and to encourage investment and better marketing.

(page 23)

We shall continue to support the Tourist Board and tourism projects throughout the country.

(page 22)

(iv) Industrial Relations

We shall give union members the right to hold ballots for the election of governing bodies of trade unions; and decide periodically whether their unions should have party political funds. We shall also curb the legal immunity of unions to call strikes without the prior approval of those concerned through a fair and secret ballot.

(page 12)

(v) Inflation

In the next Parliament, we shall endeavour to bring inflation lower still. Our ultimate goal should be a society with stable prices.

(page 10)

(vi) Jobs and Unemployment

We have committed over £2,000 million this year to training and special measures for the unemployed. As long as unemployment remains high, we shall maintain special measures of this kind, which bring effective help to many of those who have no job. We will maintain special help for the long-term unemployed through the Community Programme, and for the older unemployed through early retirement schemes.

(page 14)

We shall go on reducing the barriers which discourage employers from recruiting more staff...and we shall help to make the job market more flexible and efficient.

(page 14)

Training for work must start with better, more relevant education at school. For school leavers we have provided the most imaginative and far reaching scheme in our history...from now on, no one leaving school at 16 need be unemployed in his first year out of school.

(page 14)

We shall continue to provide for, and improve, the special employment and training needs of the disabled.

(page 14)

ii) Local authority/Government relations

We shall legislate to curb excessive and irresponsible rate increases by high-spending councils, and to provide a general scheme for limitation of rate increases for all local authorities to be used if necessary.

In addition, for industry we will require local authorities to consult local representatives of industry and commerce before setting their rates. We shall give more businesses the right to pay by instalments. And we shall stop the rating of empty industrial property.

The Metropolitan Councils and the Greater London Council have been shown to be a wasteful and unnecessary tier of government. We shall abolish them and return most of their functions to the boroughs and districts. Services which need to be administered over a wider area - such as police and fire, and education in inner London - will be run by joint boards of borough or district representatives. (page 37)

(viii) Pay

The last four years have shown that a bureaucratic machine for controlling wages and prices is quite unnecessary...But Government remains inescapably responsible for controlling its own costs. We are committed to fair and reasonable levels of pay for those who work in the public services. We shall therefore continue to seek sensible arrangements for determining pay in the Civil Service and the NHS...It is equally our duty to the nation as a whole to prevent any abuse of monopoly power or exploitation of the sick, the weak and the elderly. So we must continue to resist unreasonable pay claims in the public sector. (page 11)

(ix) Privatisation

Reform of the nationalised industries is central to economic recovery...we shall continue our programme to expose State-owned firms to real competition.

We shall transfer more State-owned businesses to independent ownership. Our aim is that British Telecom - where we will sell 51 per cent of the shares to the private sector - Rolls Royce, British Airways and substantial parts of British Steel, of British shipbuilders and of British Leyland, and as many as possible of Britain's airports, shall become private sector companies. We also aim to introduce substantial private capital into the National Bus Company. As before we will offer shares to all those who work in them. We shall also transfer to the private sector the remaining State-owned oil businesses - the BGC's offshore

oil interests...in the next Parliament we shall seek other means of increasing competition in, and attracting private capital into, the gas and electricity industries.

We will take steps to ensure that these new firms do not exploit their powerful positions...Those nationalised industries which cannot be privatised or organised as smaller and more efficient units will be given top quality management and required to work to clear guidelines. (pages 15-17)

(x) Taxation Objectives

Further improvements in allowances and lower rates of income tax remain a high priority, together with measures to reduce the poverty and unemployment traps. (page 19)

We want to encourage wider ownership. This means lowering taxes on capital and savings; encouraging individuals to invest directly in company shares; and encouraging the creation of more employee share schemes. (page 19)

(xi) Public Spending Plans

We shall maintain firm control of public spending and borrowing. If Government borrows too much, interest rates rise, and so do mortgage payments. Less spending by Government leaves more room to reduce taxes on families and businesses. (page 10)

We are successfully putting out to tender more services needed by central government. We shall press on with this wherever public money can be saved and standards of service maintained or improved. (page 36)

Putting services like refuse collection out to tender has played a major part in getting value for money and significantly reducing the level of rate increases. We shall encourage every possible saving by this policy. (page 36)

(xii) Defence

NATO must have strong conventional forces backed by a nuclear deterrent. And we in Britain must maintain our own independent nuclear contribution to British and European defence. At the same time, we shall continue to support all realistic efforts to reach balanced and verifiable agreements with the Soviet Union on arms control and disarmament. (page 43)

(xiii) Education

We shall continue to seek ways of widening parental choice and influence over their children's schooling. (page 29)

This country is now spending more per child in school than ever before, even after allowing for price rises. Exactly how the money is spent and how schools are run, is up to local education authorities. (page 29)

But the Government can help improve standards and make sure that children are taught and trained for the world they will grow up into. (page 29)

The very large sums of public money now going to higher education must be spent in the most effective way. Within that budget, we want to use a shift towards technological, scientific and engineering courses. (page 30)

We shall keep up the level of government support (for the arts and the national heritage), including a fair share for the regions. We shall also examine ways of using the tax system to encourage further growth in private support for the arts and the heritage. (page 41)

(xiv) Health and Personal Social Services

We intend to continue to make sure that all patients receive the best possible value for the money that is spent on the Health Service. The treatment of the elderly, the mentally handicapped and the mentally ill will continue to command our particular attention. We shall continue to make extra provision for those parts of the country in the North and the Midlands which have always been comparatively short of resources. (page 27)

There are now 140 new hospitals in [our] programme being designed or built. We shall continue to upgrade existing hospitals and brighten up shabby wards. (page 28)

To release more money for looking after patients, we will reduce the costs of administering the Health Service. (page 28)

We welcome the growth in private health insurance in recent years. This has both made more health care available, and lightened the load on the NHS, particularly for non-urgent operations. We shall continue to encourage this valuable supplement to State care. We shall promote closer partnership between the State and the private sectors in the exchange of facilities and of ideas in the interests of all patients. (page 28)

(xv) Housing and Environment

In the next Parliament, we will give many thousand more families the chance to buy their homes. For public sector tenants, the present "Right to Buy" scheme will be improved and extended to include the right to buy houses on leasehold land and the right to buy on a shared ownership basis. (page 25)

We shall also help first-time buyers who are not council tenants through our various low-cost home-ownership schemes: "homesteading", building for sale, improvement for sale, and shared ownership. (page 25)

We shall extend our Tenants Charter to enable council tenants to get necessary repairs done themselves and be reimbursed by their councils. Housing Improvement Grants have been increased substantially in the last two years and will continue to play an important role. (page 25)

We shall conduct early public consultation on proposals which would enable the building societies to play a fuller part in supporting the provision of new housing and would bring up to date the laws which govern them. (page 25)

We shall promote...revival of our inner cities both by new building and by sales by local councils of some of their rundown property to homesteaders who will restore the homes themselves. (page 38)

We shall continue to give priority to the areas most in need. Our programme for the reclamation of derelict land will continue. We shall increase our efforts to secure the disposal of under used public sector land... (page 39)

(xvi) Law and order

We shall be ready to increase police establishments where necessary in the war against crime. (page 33)

We shall...build more court rooms to reduce delays in trying criminal cases. (page 33)

We shall set up more community attendance centres to which the courts can send young hooligans. (page 33)

We shall complete our major programme of building which will provide another 4,800 places in ten new prisons. And we are recruiting more prison officers to staff them. (page 34)

(xvii) Pensions and Other Social Security

In the next Parliament, we shall continue to protect retirement pensions and other linked long-term benefits against rising prices. Public sector pensioners will also continue to be protected on the basis of realistic pension contributions. (page 26)

It remains our intention to continue raising the [earnings rule] limit and to abolish this earnings rule as soon as we can. The Christmas Bonus, which Labour failed to pay in 1975 and 1976, will continue to be paid every year. (page 26)

We will consider how the pension rights of "early leavers", people who change jobs, can be better protected and how their members may be given fuller information about their pension schemes. (page 26)

(xviii) Roads and Transport

The national motorway and trunk road network will continue to be developed and improved to high quality standards...we will also seek to make rail freight more competitive. (page 22)

We shall set up a new London Regional Transport Authority for the underground, buses and commuter trains in the London area...in the country we shall ensure better use of school and special buses for local communities. Restrictions on minibuses will be cut...We want to see a high quality, efficient railway service. That does not mean simply providing ever-larger subsidies from the taxpayer. Nor on the other hand does it mean embarking upon a programme of major route closures. There is however scope for substantial cost reductions in BR...We shall examine ways of decentralising BR and bringing in private enterprise to serve railway customers. To make life more agreeable in our towns and villages, we will push ahead our bypass programme. (pages 39-40)

(xix) European Community

We have tenaciously sought a permanent alternative to the annual wrangles about refunds. Until we secure a lasting solution, we shall make sure of proper interim safeguards for this country. Meanwhile, with the help of Conservatives in the European Parliament, we shall continue to try to shift the Community's spending priorities away from agriculture and towards industrial, regional and other policies which help Britain more. We shall continue to

oppose petty acts of Brussels bureaucracy and to seek the removal of unnecessary restrictions on the free movement of goods and services between member states, with proper safeguards to guarantee fair competition.

(page 44)

EXTRACTS FROM CONSERVATIVE RESEARCH DEPARTMENT BRIEFING ON 'QUESTIONS OF POLICY'Subjects included in this Annex

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ECONOMY GENERAL

Exchange rate/international monetary matters

1. UK participation in exchange rate mechanism of EMS

Response suggested is that question of sterling's participation in ERM is 'kept under review'. The £ 'will join the ERM as soon as the time is right, which will be when market conditions are conducive to greater exchange rate stability.'

(QP1)

2. A new 'Bretton Woods'?

Briefing agrees that 'there is a need to achieve greater stability in international financial relationships'. But 'not possible to revert to system of fixed exchange rates similar to that established by Bretton Woods Conference in 1944 ... [this] collapsed in early 1970s because of the volatility of currencies for same reason it would be unworkable today.' Reference is made to previous Chancellor of the Exchequer's advocacy of 'sound financial policies' in international gatherings. 'There is no alternative to a pragmatic step-by-step approach of building on the existing international institutions and ensuring their effectiveness.'

(QP2)

Government and industry

3. Regional policy

Government 'committed to a regional policy'. Want it 'to be effective.' In particular, 'want to make sure policies are economical and effective in creating jobs'. But 'do not propose any sudden changes to regional policy'.

(QP69)

4. Machine tool industry

'The Government stands ready to consider support for product development under any scheme of rationalisation put forward by the machine tool industry. We would also look sympathetically at other proposals for financial support under the existing rules.'

(QP238)

Local authority/Government relations

5. Briefing refers to Government's intention to 'immediately introduce legislation to curb excessive and irresponsible rate increases by high spending councils and to provide a general scheme of limitation on rate increases for all local authorities to be used if necessary.'

Briefing also gives reasons for not proceeding with selection of other proposals for change in the local government system of finance, including local income tax, poll tax, local sales tax, and central government block grants for education. (QP131)

Privatisation and publicly owned industries

6. BGC

Suggested response to queries about Government making BGC sell off its offshore oil assets is that 'there is no justification for a state-owned gas utility operating in the oil industry'... the Corporation's offshore oil assets are being formed into new subsidiaries which will be transferred to the Energy Secretary - a decision will be taken on the timing and method of disposal in the light of market conditions nearer the time. (QP102)

Suggested response to queries about gas showrooms is that 'powers exist under the Oil and Gas (Enterprise) Act for the Corporation to be required to dispose of its appliance retailing business'; 'work is going ahead on the development of a safety regime which will ensure that, should privatisation go ahead, gas installation and safety standards are fully maintained;' and that 'the Government has made clear to BGC its intention to ensure free and fair competition in gas appliance retailing'. (QP101)

7. BR

The Brief gives the answer 'No' to the question 'Does the Government intend to cut commuter rail services or raise commuter fares?' but qualifies this by adding: 'We want BR's plans to reflect commuter's own priorities. This means keeping down fares, better punctuality and reliability and cleaner trains ... There is considerable scope for paying for service improvements through efficiency gains in the running of commuter services ...' (QP224)

Suggested answers to questions related to the Serpell Report include: 'We believe that decisions [on the future of railways] should be taken on the basis of likely future performance and by social need for public transport'; the size of the present network is 'about right'; electrification 'is desirable. We are committed to electrification in principle. But investment in electrification on Inter-City lines will be based on a sound financial case being made for each project'. (QP254)

'We have no programme of major closures'. (QP140)

8. BSC

Response suggested to question whether Government is committed to a future for BSC is: 'Yes'. Government's objective 'has been to bring the Corporation to economic viability'. Corporation 'now on target for obtaining (sic) viability in 1984-85. Government request for plans for next 3 years to be made on assumption of continuance of five major sites as cited as 'clear sign of Government's commitment to the steel industry'.

(QP64)

9. Electricity showrooms are described as operating 'in competition with private sector retailers' so not 'exercising purchasing power over manufacturers' as BGC ones do. Government 'will want to consider the findings' of the MMC investigation into the electricity industry.

(QP108)

10. NCB

On pit closures, Briefing points to 'the industry's legacy of old and hopelessly uneconomic pits' as contributing to Coal Board losses given the high prices which leave stocks unsold, and says: 'the way in which the NCB moves towards its objective [to bring output into line with profitable production] is a matter for management, but closure of old pits and concentration on the productive pits like the new one at Selby would seem a sensible course.'

(QP104)

11. Royal Ordnance Factories

Briefing says that Government 'decided last year that the ROFs should operate in a more commercial environment under the Companies Act', legislation will be introduced 'when the Parliamentary timetable allows'. Initially Government ownership will continue but with the intention 'in due course of involving private capital directly'.

(QP154)

Taxation

12. Tax credit scheme

Brief refers to proposals of Conservative Government in 1972 for a tax credit scheme, states that 'over the last decade progress has been made towards fulfilling the objectives of that scheme to bring together the tax and social security systems into one system, more rational, simple and cheaper to run...' and comments: 'The Government will continue to pursue these objectives as and when resources permit.'

(QP18)

13. Taxation of husband and wife

A consultative document is promised 'which will give the public an opportunity to assess the detailed implications'. The background information stresses that while there is plenty of support for independent taxation 'there is a wide diversity of opinion on what form it should take and that it would in any event be some years before a change of this magnitude could be implemented.'

(QP21)

14. Mortgage interest relief

The brief promises that a summer Finance Bill will contain the clauses lost before the Dissolution that were designed to raise the qualifying limit to £30,000 - as has been done. No specific further commitment is given: it says: 'The Government will keep the limit under review in future years.'

(QP19)

15. Taxation of benefits in kind

Brief states that 'it must be right in principle for remuneration in kind to be taxed exactly the same as remuneration in cash' and comments 'This is difficult to achieve but we have taken and will continue to take steps to avoid distortion in favour of benefits'. Cars are cited as 'a special problem'; the scales are currently far short of the true value of having a car available for private use but these 'can only be increased gradually towards more realistic levels.'

(QP22, 30)

16. Relief on personal expenses

Introduction of tax relief on commuters' fares and the cost of travel to work is firmly rejected: 'Such special reliefs erode the tax base and make it more difficult to achieve the central aims of a simpler tax system with higher thresholds and lower rates.' So are tax relief on premiums paid for private medical insurance or fees for private education, with the Brief advising in each case that a general tax relief 'would conflict with another important aim of ours: to have a wide tax base so that tax rates can be as low as possible.'

(QP23, 24, 25)

17. Abolition of Investment Income Surcharge

Brief points to reductions in the burden during period of Conservative Government since 1979, and promises reinstatement in the summer Finance Bill of the proposed increase in the threshold lost because of the Dissolution - as has since been done. The background note points out that 'the amount of revenue at stake makes it difficult to abolish [ISS] in one jump.'

(QP17)

18. Tax treatment of holiday lettings

Brief refers to the FST's announcement during Debates on the Spring Finance Bill that Government intend 'at a suitable opportunity' to change the law to provide 'certain capital gains tax reliefs for people carrying on a business of furnished holiday lettings, and to treat their income as earned income for tax purposes.'

(QP27)

19. Black economy

Suggested response to calls for Government to 'clamp down' on the black economy is that 'it is important the dishonest taxpayer should not gain at the expense of the honest taxpayer. But methods of investigation must not infringe the rights of the citizens;' and to point to recent increased recoveries of tax by the tax authorities who are 'constantly improving their techniques and procedures.'

(QP8)

20. Tax snooping (Keith Report)

Brief says 'The Report is a lengthy document: when the rest of the Report is received towards the end of the year the Government will consider it very carefully and listen to views before coming to any conclusions.' It also stresses that the Report itself emphasises the need for powers possessed by the Revenue departments to be subject to safeguards and checks on which it includes recommendations.

(QP9)

21. Abolition of NIS

After pointing to the most recent reductions, the Brief says 'The operation will be completed as soon as the cost can be afforded without endangering the Government's economic strategy.'

(QP7)

22. VAT

In relation to the EC Commission recommendation that zero-rating should be phased out, the Brief states 'We have made it clear that zero rates are an integral part of our VAT system' and explains that because unanimous approval by all member States would be required 'We cannot therefore be forced to make changes.'

(QP11)

The advice given for meeting queries on particular 'anomalies' in VAT that may be mentioned (eg house repairs, subs to sports bodies and entry to sports events, purchases by charities, women's sanitary requisites) is the standard 'line' that 'VAT was

designed as a broad-based tax charged on a wide range of goods and services .. a substantial range of broad reliefs is operated ... wherever you draw the line there will be problems ... at the margin ... the cost of conceding [further reliefs] could be large.' (QP10,12,185)

23. Freeports

The Brief explains that although the proposed enabling Bill was a casualty of the Dissolution, 'the Government remains firmly committed to introducing it in the next Parliament and are currently considering the criteria under which the selection process will be conducted'. No commitment as to numbers or timing is included. (QP13)

Note: Further announcement inviting applications for consideration was made on 27 July.

PUBLIC SPENDING

Civil Service Staffing

24. The Brief counters an inquiry in a CPSA questionnaire about steps to ensure that Departments have adequate complements of staff by insisting that 'The target of 630,000 [for achievement by April 1984] was not [as claimed by CPSA] an arbitrary one. It was fixed after a most careful examination of the manpower requirements of Government departments and of the possibilities for introducing better management and greater efficiency. All departments have now been asked to review and report on their manpower prospects from 1984 to 1988. Our aim will be to match departments' staffing levels with the work which departments have to do, taking into account the scope which exists for increasing efficiency.'

(QP265)

25. In response to suggestions from the CPSA that the duties charged to Government departments are 'better performed by the Civil Service ...' the Brief comments: 'The Government's policy is to contract work out to the private sector where this is cost-effective. The aim is to achieve greater efficiency and to improve the quality of service to the consumer.'

(QP265)

26. In response to CPSA's inquiry about the effects on staff of the introduction of new technology in the Civil Service, the Brief comments: 'The Government's policy is to introduce new technology into the Civil Service where possible with the co-operation and agreement of the trade unions concerned' ... but departmental management 'must preserve its right ... to implement particular ... projects without trade union agreement if this proves necessary ... It is not possible for any guarantee

to be given that no jobs will be lost as a result of the introduction of new technology ... Civil Servants cannot fairly expect to receive as of right more pay or shorter hours just because the taxpayer has invested money in better equipment.' (QP165)

Education

27. Access: The Brief confirms that the Conservative Party 'firmly adheres to the principle that every child has a right to a proper education regardless of his or her parents' means.' (QP182)

28. On nursery education the Brief refers to increases in provision for 3 or 4 year olds since 1979 but comments: 'We shall continue to encourage local authorities to provide flexible low-cost nursery education where it is appropriate. But we still take the view that provision for children in this age group is primarily the responsibility of parents either acting alone or in partnership or in association with voluntary associations.' (QP88)

29. School age The Brief states: 'The Conservative Party has no plans to alter the compulsory school age.' (QP182)

30. Cuts The Brief rejects references to 'expenditure cuts' by referring to greater real spending per child and transitional problems of adjustment to falling school rolls. (QP182)

31. Vouchers The Brief comments that the Conservative Party has always favoured ways of increasing parental influence and choice: 'several different means of achieving this end are therefore being considered. But no final conclusions have been reached.' Moreover 'we would not in any case wish to introduce radical changes without widespread consultation, followed, if appropriate, by pilot projects on the part of those LEAs which expressed a wish to conduct them.' (QP182)

Elsewhere the Brief records: 'The Conservative Party is not in any sense committed to a voucher scheme however financed' and makes the same references to consultation and pilot schemes. (QP200)

32. Grants for 16-19 year olds

The Brief recommends answering suggestions that grants should be provided for young people continuing in full time education after 16 by reference to the numbers already

doing this without grants, the long term benefits likely to accrue to them, and the high cost (hundred of millions of £s of taxpayers money) that could be involved. (QP83, 141, 182)

33. Financial support to students aged 18 and over

The Brief states: 'The Government has at present no intention of replacing any part of the student grant by a loan. We do however remain interested in examining the whole system of student support and in finding means of widening access to higher education without excessive cost to the taxpayer ... student loans might have some part to play ... but we would introduce any reform only after widespread consultation.' (QP80 and 157)

Elsewhere it also records: 'We do not at present have any intention of removing, or substantially reducing, the parental contribution ...' It recommends candidates to reply 'yes' if asked whether they would vote against measures tending to force students to live at home. (QP184)

34. Universities, polytechnics and other higher education institutions

The Brief comments on questions about cuts by referring to the 1981 decision to reduce higher education spending in real terms, over three years and adds ...'this period of contraction is now nearing the end. In 1983-84 we will have spent £2.75 billion on higher education: and the intention is to hold the level steady in real terms after 1984-85.'

On higher education policy generally it says: 'Our policy is to respect the independence of institutions of higher education and to offer them all such support as is consistent with the demands of economic prudence.' (QP157)

About the UGC it says, after remarking that 'a body of this sort has a role to play', that 'we may well wish to review the structure of higher education funding, with a view to increasing the co-operation between the UGC and the NAB.' (QP157)

Falkland Islands

35. The Brief states that 'Conservative policy is to secure the Islands' defence and deter further aggression and to create conditions in which the islanders can live happy, prosperous and free lives under a Government of their choosing'. It records the commitment to spending '£45 million in the coming five years to implement the main recommendations of the Shackleton Report.' (QP133)

Health Service

36. Access The Brief records the PM's commitment of December 1981, reiterated in October 1982, to 'the principle that adequate health care should be provided for all regardless of ability to pay must be the foundation of any arrangement for financing the Health Service.'

(QP203)

37. Charges

'We believe that it is reasonable that those people who can afford to should make a modest contribution to the costs of their care and so to the overall resources available for spending on health ...'

(QP38)

'We have no intention of introducing any system of charges for visits to the doctor or treatment in hospital. We have no immediate or developed proposals for any further charges, and any changes in the present system will only be considered if they result in a fairer contribution to rising spending on health services from those who can afford it.'

(QP39)

'Cuts'

38. 'The service has to evolve to match changes in the pattern of population and in the provision of medical services. This will lead - as it always has in the past - to the closure of older hospitals and their replacement by newer ones. Some areas have a surplus of facilities for some services and a shortage in others so that, for example, funds can be released by closing surplus beds ... and ... improving services for the mentally ill and the aged ... no single closure is any evidence of a "cut".'

(QP 40 and 212)

'We expect Health Authorities to make 'efficiency savings' of $\frac{1}{2}$ per cent each year as a contribution to the financing of new developments ... many Health Authorities could do better than this ...'

(QP40)

Hospital building programme

39. ...'the Government has in hand a major programme of hospital building - in all 136 new hospital projects [not stated whether in UK, GB or E & W] are under way involving capital spending of £1,100 million'.

(QP42)

Pensions and Social Security Benefits

40. 'Any change in pension age is exceedingly expensive ... As a long term objective our aim should be to make possible a more flexible approach to retirement.'

The background note refers to the Social Services Select Committee recommendations, including progress to a common qualifying age for men and women and an option to retire at 60 on a reduced pension or continue beyond 60 thereby earning a higher one and says: 'The Government has not yet replied ... and is still studying its implications'.

(QP32)

41. Retirement pensioners earnings rule

It remains our ultimate objective to abolish the earnings rule, and we have raised the allowed earnings limit. But we have not been able to phase it out as quickly as we would have hoped.'

(QP33)

42. War widows

The Brief explains that extending the current occupational scheme, which pays the Falklands war widows, to all service widows whose husbands died before 1973, the start of the present scheme, would be too expensive. But 'we hope to make further improvements in war widows' pensions, particularly for the older widows not included in the occupational scheme, as our resources allow.'

(QP176)

43. Death grant

'In March 1983 the Government published a consultative document ... The Government is now considering the public response to this document.'

(QP165)

44. Child benefit

'There is absolutely no truth in the Labour smear that the Conservatives plan to abolish child benefits to use the resources for spending on other benefits ... The Conservative Party strongly believes in the principle of supporting families with children ...'

(QP31)

'There are no plans to introduce a means test for it'.

(QP258)

45. Mobility allowance age limit

'The cost of abolishing the 75 age limit for existing recipients would be about £2-3 million in the first year - at the current benefit rate ... no existing recipient will reach the age of 75 until 1989 and ... the Government will consider the whole issue very carefully nearer the time.'

(QP48)

46. Invalidity benefit abatement

'The [former] Chancellor has promised to restore the 5 per cent abatement when the invalidity benefit is brought into tax.'

Background note mentions that no definite date for taxation of the benefit has yet been provided.

(QP46)

47. Non-contributory invalidity pension "household duties test"

The Brief recalls that 'the Conservatives promised ... a review to find ways of overcoming this problem' and says 'We are still waiting for the outcome of the officials' report. We are determined to find a solution ... But those who press for an immediate change have to face the fact that the cost of abolishing the test completely would be £275 million.'

(QP43)

48. Help with fuel bills for people in need

After reviewing improvements since 1979 the Brief states: 'We will of course continue to concentrate assistance on the most needy in future.'

(QP41)

Public Sector Pay and Pensions

49. In suggested answer to query about intention Brief quotes from the Manifesto ['We are committed to fair and reasonable levels of pay for those who work in the public services' and 'we shall continue to seek sensible arrangements for determining pay in the Civil Service'] and adds: [for the Civil Service]

50. 'Our aim is to secure agreement with the trade unions on a new ordered pay determination system based on the recommendations of the report produced last year by the independent Megaw Committee. The trade unions have been (and will continue to be) given every opportunity to express their views before the new system is finally established.'

(QP265)

51. In response to an NUT suggestion that teachers' salaries should be 'restored to the level established by the Houghton Committee' and 'henceforth' determined 'on the basis of comparability with that of professions and groups broadly comparable to teachers' the Brief records: 'The Government has no plans for a further pay comparability exercise. We hope that any future review of the basis of teachers' pay will take account of the knowledge and experience of individuals and of supply and demand. Such a review should also seek to reward quality.'

(QP182)

52. The Brief defends Members of Parliament from a hypothetical allegation that they are getting a salary increase of 30.9 per cent, by pointing out that the recommendations of the TSRB were not endorsed by the House, without offering any view on what should be the basis of determination of the pay of MPs (and Ministers) in future. [The eventual decisions to adopt much smaller increases than TSRB recommended were taken in July, in the new Parliament after the Election.]

(QP208)

53. The Brief recommends that queries about index linked pensions should be answered by saying: 'The Government has never said that it intended to abolish index linking of pensions enjoyed by numerous other groups besides civil servants - for example teachers, doctors, nurses, police, armed forces, local government employees, employees of nationalised industries, and MPs... The main thing is to ensure that employees make a proper contribution to the costs of these pension benefits. A start has been made...'

54. There is also a recommended answer to queries about the effect of privatisation on the pension rights of employees of British Telecom: 'As far as existing pensions obligations are concerned, these will be fully honoured. As far as the future is concerned, the substantial protection enjoyed by BT's pensioners and its employees under the [pension funds'] trust arrangements will remain unchanged.'

(QP28)

Roads and Transport

55. To the hypothetical question whether the Government is 'against transport subsidy' the Brief recommends answering: 'No. We accept the need for reasonable levels of financial support ... However we do not believe that local authorities should be unfettered in their ability to spend whatever they like of their ratepayers' money in subsidies to travellers ...'

(QP219)

11/9/83 -

56. 'The new London Regional Transport Authority will take over responsibility for public transport in London and BR's main commuter lines. It will not have responsibility for roads and will not be allowed to precept London's ratepayers. It will enable public transport to be planned with greater efficiency and will be able to examine the scope for greater private sector involvement.'

(QP222)

57. 'Some 140 bypasses are in our active forward programme [not stated whether UK, GB or E & W]. All the remaining road schemes are due to start early in the programme for the next 5 years ...'

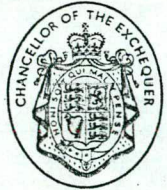
The background note adds: 'It is a fallacy to suppose that we could immediately and dramatically increase spending on roads ...[because of long lead times] dramatic increases in actual spending on new construction would not be possible within the life of one Parliament.'

(QP263)

58. Our bypass programme is expanding. In the next 4-5 years, another 220 communities will be bypassed.'

(QP249)

polit



FROM: MISS M O'MARA

DATE: 6 September 1983

- cc Chief Secretary
- Financial Secretary
- Economic Secretary
- Minister of State
- Mr Battishill
- Mr R I G Allen
- Mr Hall
- Miss Deyes
- Mr Lord
- Dr Rouse

RF

MR RIDLEY

ELECTION COMMITMENTS ON MATTERS OF TREASURY INTEREST

The Chancellor was grateful for the analysis attached to your minute of 1 September and for all the work which you, and Miss Deyes put into its production. He has commented that officials in GE will clearly need to be aware of these statements and I should therefore be grateful if you could let them have copies.

MOM

MISS M O'MARA

NEIL HAMILTON MP



HOUSE OF COMMONS
LONDON SW1A 0AA

20th September 1983

The Rt Hon Nigel Lawson Esq MP
Chancellor of the Exchequer
Treasury Chambers
LONDON SW1

24/1

HM TREASURY - MCU	
RECD.	23 SEP 1983
ACTION	Mr Battershill
	Mrs Dunn
	Mr Lord
	Mr Makham
SIGNATURE	
REF. No.	

4157

Dear Chancellor

TRADE AND INDUSTRY COMMITTEE
TUESDAYS IN COMMITTEE ROOM 6 at 5.00 p.m.

I was wondering whether you might have been willing to come and speak to the Trade and Industry Committee one Tuesday in December?

We meet at 5.00 p.m. in Committee Room 6 and I know Members would very much like the opportunity of hearing your views on industrial investment. If you are agreeable in principle, might I suggest Tuesday 6th or Tuesday 13th December?

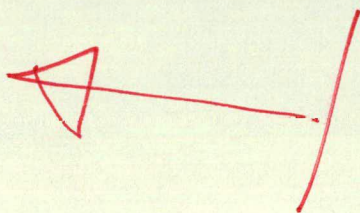
Yours ever
Neil

done attempt
speech in the
Chancellor.
would you
like this
fixed please?

NEIL HAMILTON MP
Secretary, Trade and
Industry Committee
Chancellor.

Jan 17th or 24th the only
look better - that period
spkg eng' in Merseyside
15 Fri 20th M.

wd Jan
60
Mr



What do
No 6 or 13th
look like?
or

Chancellor.
You are free on
both dates but you
have other spkg engage-
ments on the following
days. Also Keofin
is on 12th so if you
6th would be better. M

wanted's accept

FROM: D B ANDREN
DATE: 31 October 1983

1. MR GORDON
2. FINANCIAL SECRETARY

cc PPS
Chief Secretary
Economic Secretary
Minister of State
Mr Middleton
Mr Bailey
Mr Anson
Mr Lovell
Mr R I Allen
Mr Chivers

SMALL BUSINESS LOAN GUARANTEE SCHEME REVIEW

In his letter of 5 October to your predecessor Mr Trippier outlined his proposals for reviewing the Small Business Loan Guarantee Scheme.

Background

2. The Loan Guarantee Scheme was introduced on an experimental basis in June 1981 to encourage banks to be more adventurous in their lending to small firms. Thus, the main aim of the scheme was to change the attitude of banks towards such lending. It was originally envisaged the pilot scheme would run for 3 years with a limit of £50 million a year on lending under the scheme. All loans under the scheme are backed by a Government guarantee of 80 per cent. The scheme has proved much more popular than expected and the limit for loans under the scheme has been successively increased and now stands at £600 million. As at end September 12,231 loans have been made under the scheme to the value of just over £400 million. Net losses have been rising rather more rapidly in recent months and now stand at £23.5 million.

Appraisal

3. There is a tendency to say that the scheme is successful because take-up is high. The true measure of success would be if the participating financial institutions agreed they had been excessively cautious in their lending to small businesses in the past and were now willing to make such loans without a Government guarantee. Although a recent study undertaken by consultants on behalf of the DTI estimates that some 80 per cent of borrowing under the scheme would not otherwise have taken place on acceptable terms, it is far from clear that it is desirable to encourage additional lending of this kind to small firms. It would seem much better to encourage small firms to finance expansion through equity participation which is, of course, the main objective of the Business Expansion Scheme. Because the scheme offers an 80 per cent guarantee the banks are keen on it, particularly as they can frequently take on new customers when making a loan under the scheme. However, some participating financial institutions, such as ICFC, have been critical of the scheme because it encourages loan rather than equity finance. The CBI have also privately made the same criticism and, when pressed, one of the small firms advisers to Nat West did admit to us that the introduction of the Loan Guarantee Scheme had made it considerably more difficult for Nat West to market its own small firms loan schemes.

4. We are not clear why the loss rate under the scheme has been rising rather more quickly recently. However, this and our general doubts about the value of the scheme suggest it would be sensible to press DTI to complete the proposed review as soon as possible and we have suggested the Chancellor makes this point when writing to the Secretary of State for Trade and Industry about the range of small firms measures.

Options

5. We think there is a strong case for terminating the scheme when the present tranche of funds runs out or when the scheme has run its full experimental period of 3 years. Undoubtedly, any suggestion the scheme should be terminated is likely to run into strong opposition from the small firms lobby which may well be supported by

the banks and other participating financial institutions. Although Mr Trippier says he wants to keep an open mind on available options, there is no hint in his letter that he is seriously contemplating ending the scheme. Other possible options which need to be examined during the course of the review include phasing out the scheme over a period of years and reducing the proportion of the loan which is guaranteed by the Government.

6. We understand Mr Trippier would like to announce the review is going to take place next Friday, possibly during the course of an adjournment debate. It would appear from an article in Friday's Times (copy attached) that Mr Trippier favours the continuation of the Scheme since he talks about the scheme's "success" and believes it too early in the scheme's "development" to judge whether the proportion of each loan guaranteed by the Government should be reduced. (The references to losses of £31 million make no allowance for premium income). We think it important to ensure Mr Trippier does recognise that terminating the scheme is an option which will need to be looked at very closely. A draft letter to Mr Trippier is attached.

D. B. Andren

D B ANDREN

DRAFT LETTER FROM THE FINANCIAL SECRETARY TO:

David Trippier Esq MP
Parliamentary Under Secretary of State
for Industry
Department of Trade and Industry
119 Victoria Street
LONDON SW1H 0ET

SMALL BUSINESS LOAN GUARANTEE SCHEME REVIEW

You wrote to Nicholas Ridley on 5 October about the proposed arrangements for the review of the Small Business Loan Guarantee Scheme.

2. I am grateful to you for keeping us in touch with the proposed coverage of this review and I hope Treasury officials will be consulted as it develops. As you know, the scheme was introduced for an experimental period of 3 years with the declared objective of encouraging the banks to be less conservative in their lending policies. It can be argued that the large amount of lending which has already taken place under the scheme should have been sufficient to give banks and other participating financial institutions sufficient time to reach a view on whether their lending policies had indeed been too conservative. If this line of argument is accepted, a reasonable option would be to terminate the scheme in May 1984 or when the present ceiling of £600 million is reached. In view of this, and the fact losses have recently been rising rather more rapidly, I think it is important to complete the

review as quickly as possible in order that the Government can come to an early decision about the future of the scheme. Since it is obviously desirable to give some 3 months or so advance warning of our intentions this suggests that we should be aiming to complete our consideration not later than the end of February.

3. I am broadly content with your proposed reply to the arranged PQ, but I suggest that it would be better to begin the reply in such a way as to give no presumption that the scheme will continue. I suggest you substitute the following for the first 2 sentences:

"The Loan Guarantee Scheme was introduced in June 1981 for an experimental 3 year period subject to an overall limit on the amount of lending under the Scheme. This limit currently stands at £600 million. Over the next few months the Government will be carrying out a fundamental review which will form the basis of decisions on the future of the Scheme. At this stage I cannot pre-judge the results of this review. During the course of it I shall look closely at a wide range of issues relevant to the Scheme's performance...".

4. I am copying this letter to the recipients of yours.

Is £75,000 too low a limit?

The Small Firms Loans Guarantee Scheme, under which the Department of Trade and Industry underwrites 80 per cent of loans made by banks, is now under review to decide whether it should continue after May next year.

Mr Trippier said: "Without prejudging the results of the review I would say that thus far the scheme appears to be a success." But he added: "The rate of applications does seem to have hit a plateau although the curve on applications may start to rise a little. I am anxious that more small businesses should be aware of the scheme."

Applications have recently been running at between 500 and 600 a month, with some 500 guarantees issued in August and 488 in September. The total number of guarantees given since the pilot scheme started in June 1981 is 12,231, amounting to £403.4m.

So far business failures have resulted in guarantee payments to the banks of rather more than £31m, indicating a failure rate of less than 8 per cent. With loans typically running five or more years it is too early to assess from this result what the underlying failure rate is likely to be.

Most banks are expecting a failure rate of around 15 per cent but other assessments suggest that one in five of businesses given loans will fail.

One issue being considered in the review is whether the scheme's upper limit of £75,000 should be raised. But the average loan being made is much lower at £35,000.

It has been argued that guarantees should be scaled down below 80 per cent but Mr Trippier believes it is too early in the scheme's development to strike a judgment on that.

ATIONALISED INDUSTRY SUBSIDIES

£ million

	<u>1981-82</u>	<u>1982-83</u>	<u>1983-84</u>	<u>1984-85</u>	<u>1985-86</u>	<u>1986-87</u>
Grants	1447	1866	1890	1852	1620	1390
PDC and S18 Iron and Steel issues	675	789	498	560	247	141
<hr/>						
Total 'subsidies'	2122	2655	2388	2412	1867	1531
Total net borrowing	1431	-512	112	-531	-722	-1440
<hr/>						
Total external finance	3553	2143	2500	1881	1145	91

Trade + Industry Committee meeting 24/1/84

Michael Grylls

- Investment for larger companies - interest net of tax
- * Corporation tax (Japan 60%, U.K. 38%)
- * N.I.S.
- Loan guarantee scheme
- Regional grants.

John Ward (Vice chmn.)

- Continuing subsidy of nationalised industry and backing lame ducks. The hard lessons for private industry have not touched nationalised industry.
- * Privitisation.
 - * N.I.S.

Bowen Wells (Vice chmn.)

- Taxation of Industry - CBI budget representations.
- * Privitisation as seen from the Treasury.
 - Concern about private sector monopoly.
 - Gower report.
 - Loan guarantee scheme.

Neil Hamilton (secretary)

- * Further cuts in public expenditure to cut taxes and in particular business costs.
- * Needs reassurance about P.M.'s interview with Brian Walden.

Jeremy Hanley (secretary)

not consulted.

NEIL HAMILTON MP



HOUSE OF COMMONS
LONDON SW1A 0AA

16th November 1983

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Great George Street
LONDON SW1

24/17

HM TREASURY - MCU	
REC'D.	17 NOV 1983
ACTION	Mr Baltham 17/11 Miss Goodman Mr Makeham Mr Lord
SIGNATURE	
REF No.	

Dear Nigel

TRADE AND INDUSTRY COMMITTEE
TUESDAY 24th JANUARY 1984
COMMITTEE ROOM 6 at 5.00 p.m.

Chancellor

To see
BY

I am delighted that you have kindly agreed to come and talk to the Trade and Industry Committee and we look forward to welcoming you on Tuesday 24th January.

Yours ever
Neil

Conservative Research Department

32 Smith Square Westminster SW1P 3HH

Telephone 01-222 9511

C CST 5/1
FST
MST
✓ EST
Mr Ridley
Mr Lord
Mr Portillo

(P)

Director: PETER CROPPER

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London S.W.1.

Private & Confidential

4th January 1984

Dear Chancellor,

You invited me to set out some thoughts on the forthcoming Budget, and on economic policy in general.

As you would expect, I applaud your personal commitment to nil inflation. Many people feel that once inflation is in low single figures, other priorities can be allowed to take over. In my view all price inflation is pernicious, because once you concede three, four or five per cent you have conceded the principle and there is no longer any security for savers, investors, and all those worthy people who like, as far as possible, to know where they are going.

I suspect that a PSBR of £8.5 billion is too high for price stability. It should therefore be brought down further. If what the stockbrokers' economists say is true, and the conventional figure conceals a slippage of six or seven billion pounds this year, then so much the more. Another leg of the MTFs needs to be displayed.

Given this starting point, I hardly expect that you will have more than a billion or so net to "give away" in March - if that. (I assume that you will be very reluctant to default on Lawson Rooker Wise in your first budget). I hardly expect, either, that you will have had time since June to work out a programme of radical tax changes. That being so, and assuming that further piecemeal expenditure cuts will be unobtainable, I cannot think that your first Budget is going to be very exciting.

If I were restricted to one billion pounds of tax cuts I would unquestionably concentrate it all on the abolition of stamp duties. Getting rid of stamp duty on houses and land would be good for mobility, ownership and the middle classes. Getting rid of stamp duty on security transfers would promote share ownership and an active market. It would give further stimulus to the modernisation of the Stock Exchange and improve London's chances of regaining lost ground. One should not accept the argument that the process of collecting stamp duty is a useful way of ensuring that transfers are properly recorded.

Radical Reform of the Fiscal System

Somebody, sooner or later, is going to carry through a fundamental reform of Britain's fiscal system. It would be nice to think it could be done during this Parliament, but there is a great deal of work to be done first.

What I have in mind is something absolutely fundamental, which would affect every family in the land. It would eliminate a huge complex of tax complications - loopholes, avoidance schemes etc - and much of the paraphernalia of professional advisers and insurance salesmen that go with them. It would amount to:

- i) Elimination of most of the tax expenditures - including life insurance relief, pension fund reliefs and mortgage tax relief (this last at least against higher tax rates).
- ii) Removing the married tax allowance and introducing either MST or ITTA.
- iii) Raising the threshold for Capital Gains Tax to, say, £50,000. (The tax would have to be retained in some form in order to prevent conversion of income into capital profits).
- iv) Elimination of investment income surcharge.
- v) Using the net proceeds mainly to reduce the burden of income tax.

The net effect of this package on any given taxpayer would be difficult to predict. It would be easier to carry it out if there were some foreseeable prospect of a year in which you would have several billions to give away. There is no such prospect; indeed it begins to look as if by the end of the decade the flow of revenue from the North Sea will be beginning to turn downwards - thus closing the door on income tax reform even more tightly.

The one way in which leeway could be created for such a far-reaching package would be to combine it with the imposition of VAT on that part of expenditure presently exempt or zero rated. (House purchase would have to remain outside the VAT net).

Imposing VAT on food, fuel, transport etc would produce something over £10 billion. With a sum of that order, in addition to the proceeds of eliminating the big tax expenditures, there could be a sweeping reduction in the burden of income tax. Your pipedream of a 25 per cent basic rate would come into reach, along with substantial increases in the threshold. My own preference would be for raising the thresholds - for example, to £5,000 or more - and perhaps reintroducing a reduced rate band. It might be possible for this to take the form of £5,000 taxable at 10 or 15 per cent, followed by another £5,000 at 25 per cent, with a top rate of fifty per cent.

Thus the income tax burden would fall dramatically for all taxpayers. The once-for-all price increase arising from VAT would undoubtedly be unpopular, but it would be non-recurrent, while the benefits of a lower and simpler tax burden would endure.

Pension Funds

The bonfire of tax reliefs proposed above would have a far reaching effect on pension funds. From a tax point of view they would become barely distinguishable from investment or unit trusts and the present discrimination against private saving and investment would be removed. It is a question of fundamental importance whether tax relief on the employers' and employees' pension provisions should be exempt from tax or not. There would be a logical case for universal entitlement to a sort of Loi Monory relief on a given quantum of long term saving for retirement - but that would come to the same thing as a universal entitlement to an added personal allowance. Why not go the whole hog and push up the personal allowance itself by another substantial amount? The answer to that is that the universal entitlement would probably best be set as a proportion of income and thus more nearly relate to the present system. Maybe therefore the personal saving relief should be set at, say, five per cent of income.

The key point here is not to let Norman Fowler launch out with a set of partial reforms of the pension system. My personal view is that he has given insufficient time for his present review to get really to the bottom of the matter - or for the public consultation to be adequate. Certainly the changes proposed above could solve most of the present problems of transferability, and of equity between employed and self-employed people, en route to greater goals.

In general, I believe that we would effect a great advance in personal freedom if we were to sweep away the present distinction between pension funds and other investment media. The transferability block, which is only partially solved by implementation of the OPB proposals, is only one of the ways in which feudal relationships are enabled to persist in British economic life. Much as they dislike being told, the potentates of the pension fund industry sometimes treat their members as badly as the wicked barons of old.

Preparatory Work

Difficult as it might be to make estimates of the impact of this programme on individuals and groups, the work would have to be done. It is possible that some of those who have been particularly energetic in exploiting the tax reliefs in the present system would be beyond the reach of full compensation. State pensions, child benefit and other social security benefits would probably have to be increased in line with prices. Some compensations would have to be given in exchange for the married allowance - but not too many.

Overlap of taxes and benefits

The substantial increases in income tax thresholds made possible by this package of measures would, in any case, ease the poverty trap and why work positions. A great prize would be available in terms of administrative simplification if, at the same time, radical steps could be taken to eliminate the overlap of taxes and benefits. There was widespread comment when, recently, it was pointed out that seven million households were in receipt of Housing Benefit, many of them containing standard rate income tax payers. It must be wrong to employ administrative resources on recycling income in this way. Whether the present state of computerisation in DHSS and

Inland Revenue would permit rapid progress on this front is not something I can judge.

Estimating the total impact

If such a wide ranging set of tax changes were implemented simultaneously, it would be extremely difficult to predict the total impact on revenue. This would present a problem in terms of making a budget judgement. There would, furthermore, be disruption of capital markets following the removal of tax reliefs from pension funds and insurance companies. It might be necessary to move the basic rate down by stages as changes in the flow of revenue became capable of estimation.

The political approach

This massive package of measures would stand the best chance of success if it could be introduced out of a "clear blue sky". That is probably asking too much of administrative confidentiality and it would probably create mayhem among some of the powerful professional interests involved. In practical terms, therefore, it would be necessary to consult and inform in advance. It might be best to refer the whole set of proposals to a Special Enquiry, for examination rather as the Wealth Tax was examined in 1974-75. In that case it would be wise to start soon if there were to be any hope of implementation during the present Parliament. Announcement of this enquiry could be the highpoint of your Budget speech.

I hope that this note does not strike you as wildly unrealistic. Sadly, I feel that without something radical, you are not going to make much mark on the present fiscal and social jungle. Geoffrey Howe worked very hard to implement second order tax changes and to remove anomalies; we have already enacted most of the changes for which he, you and Peter Rees campaigned between 1975 and 1979. But it remains the case that the tax system is still one of byzantine complexity. It has been made worse by some of the very measures that Geoffrey took in trying to blunt the edge of the present system - covenant relief, capital gains tax indexation, start-up schemes etc. Something really must be done; if I cannot confidently fill in my tax return then most people must regard it as gobbledegook.

I should be happy to cooperate in some more detailed work along these lines if you thought it would be useful. All my proposed changes would have to be evaluated, but some of them are so substantial that to proceed simply from the published equivalences (e.g. 1p off Income Tax costs £1,025 million) would be insufficient.

James
Peter
Peter Cropper

Conservative Research Department

32 Smith Square Westminster SW1P 3HH

Telephone 01-222 9511

Director: PETER CROPPER

Private & Confidential

The Rt Hon Nigel Lawson MP
Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London S.W.1.

4th January 1984

Dear Nigel

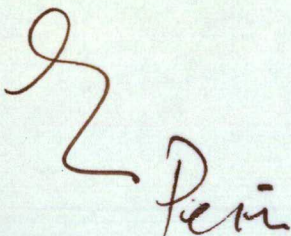
Herewith some thoughts on budgets and economic policy, as requested.

I have not risked embarrassing you by including one measure of public finance which would, I believe, do more than anything else to improve the quality of British Parliamentary government. That is a special tax to provide money for the central activities of the political parties. I would levy this tax at the rate of £1 per annum per eligible voter, the proceeds being divided out in accordance with votes cast at the preceding General Election - with transitional arrangements for emergent parties.

This money would be restricted in use to the central purposes of the Parties. It would be available for research, and for training and payment of Special Advisers, whose employment on a somewhat greater scale than at present would obviate the need for elaborate solutions along Wass or Hoskyns lines. Constituency parties would remain under the obligation to finance themselves, although they would be relieved of making "quota" payments.

Without a measure along these lines, I foresee the early and complete breakdown of party organisations and hence of parliamentary democracy as it has existed these last 150 years in Britain.

The special tax is arguably unnecessary; subventions could easily be made out of general revenue. I just feel that the levying of a special tax would legitimise the whole thing, and possibly make people realise what good value they are getting.



Peter Cropper



CHANCELLOR

Meeting with Peter

Cropper: 2.30 p.m. Thursday

May 3rd

Peter tells me he wants to talk about long-run tax issues (not this Budget). He will in effect be picking up the thoughts in his July letter on the Budget, which you will recall. In case you & I & others cannot find a copy of that letter, I have asked him to send your Office a further copy by hand for
Below our

you to glance at. It should :
arrive this evening. ●

AR 215

Conservative Research Department

32 Smith Square Westminster SW1P 3HH

Telephone 01-222 9511

*Circulation to all Ministers
& admin? ✓*

4/1/84

*from
4/1*

Director: PETER CROPPER

John Kerr Esq
Private Secretary to the Chancellor of the Exchequer
Treasury Chambers
Parliament Street
London S.W.1.

4th January 1984

Dear John

The Chancellor invited me to put down some thoughts on the Budget. I imagine you will give him this outside the system.

Happy New Year

Peter

Peter Cropper

CH/EXCHEQUER	
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ACTION	
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*you put - his
letter - cover
private & confidential
letter
M.*

No need to file / but transcript in Kinnoch Box

cc Kinnoch

Mr. Burns

Mr. Fidge

Mr. Lister

PH

Kinnoch

You might want to glance
very briefly at the attached transcript
of what Mr. Kinnoch said recently
on the JY show. There is defined the
scope of the program, which includes
a further endorsement
of labor's version of the "relevance economics"
(p. 2), some old remarks on the damage
done by the E to jobs & investment (p. 3),
his views on OSHA (p. 10), public
medicine (p. 10), productivity (p. 22, 23), &
his hopes the qualities he hopes to
show as PH ("to be modern" p. 26).

Conservative Research Department

32 Smith Square Westminster SW1P 3HH

Telephone 01-222 9511

WITH COMPLIMENTS

I apologise for the lamentable quality of this transcript - Yorkshire Television appear to employ illiterate typists.

John

JIMMY YOUNG.

PROG. No.1

Yorkshire Television.
8th January 1984.

'NEIL KINNOCK'

JIMMY: Hello and good evening. Welcome to the first programme in my new television series. Now I'm happy to say that my first guest is, I suppose in show business terms, one would say the hottest political property around at the moment. He's certainly the man on whom the political spotlight is shining most brightly. The leader of the Labour Party, he's the leader of Her Majesty's Opposition and he you will have guessed is the Right Honourable Neil Kinnock. Neil it's lovely to see you again, hot-foot from Greece, where if we're to believe the morning papers, you lost your marbles. Is that right?

NEIL: Yeah I'm going to get a good deal from them. That's, that's the important thing. Never give him anything for nothing. It's very important.

JIMMY: Neil, you went to, went there to see the Socialist leader of Greece and this week you're going to see Monsieur the Socialist president of France. Is this, I mean is it too grand to say that this is the

/Cont'd..

JIMMY: (Cont'd...)

beginning of a personal initiative from
you on Europe.

NEIL: To some extent it's
personal initiative, I try and canvass
the idea. So far with some success, but
Governments and indeed Oppositions,
indeed all responsible opinion should
be committed to general programmes of
economic recovery. Because with or
without the Common Market, similar
economies adjacent economies, modern
economies, to some extent sink or swim
together. And the more than we can
promote the idea of expansion, the
better it is. So for the second time
I shall be saying to President *M. A. ...*
that I hope that he can generally
associate with this view.
the leader in Greece and
is very much in favour of it.

JIMMY: But, and I don't want
to put words in your mouth, that's
the last thing. But I mean are you
actually talking about staying in and
radically reforming from within. Which
you were quoted as saying the other
day.

NEIL: The only thing that would make continued membership tolerable and I think there's a great deal of consensus about this, it goes beyond the Labour Party, is if there was fundamental reform. Because the Common Market is now 27 years old. It was formed by six adjacent countries in a different era of trade and technology. It's got an agricultural system, from which we can never ever benefit. And we're losing investment and jobs. Now unless we get the fundamental reforms, life can become absolutely intolerable for us as a trading industrial nation, producing nation in the Common Market. So I think a lot of people would have to consider the option of withdrawing and certainly that remains on the agenda.

JIMMY: Nonetheless there has been a shift Neil hasn't there. I mean at the last General Election, it was everybody out. Now it is well perhaps not everybody. So there's been some shift of emphasis.

NEIL: Well we got beaten in the election. And as you may have noticed, I certainly did. And it does require a re-examination. It doesn't mean that you up-root all the commitments and chuck them away and discard

/Cont'd...

NEIL: (Cont'd...)

them, things that were great on June 9th become lousy on June 10th. I mean that's, that is utterly incredible and unnecessary. But if you do separate defeat like that and times are moving on and the economy is decaying and the *money* that we're owed by Europe is building up. We'd be daft not to look at it again, wouldn't we.

JIMMY: OK. Well let's move on from Europe. When you were elected party leader you said my main priority is party unity, that was your first priority. Right. And full marks to you, you got them up nine points in the poll. Everything has gone quiet as the grave. The militants have gone to wherever it is the militants go in the winter. You know, great. But your critics say, well of course it's quiet because he won't let us talk about anything that's even remotely controversial, he's got his head so far down you can't see him. I mean is this fair comment, do you think.

NEIL: Well I'm not conscious of having my head down, and I've been getting a certain amount of coverage. If I've been a silent leader...

JIMMY: Can I just ask you about that. Cos the first coverage I actually saw you get was last week last weekend strangely enough. Well big coverage.

NEIL: There've been several other occasions on which I've got speeches reported and programmes and got tours covered and so on. I'm not sure that that's entirely the business I mean I'm not trying to sell soap, I'm trying to lead a Labour Party that is binding its wounds, re-establishing itself, re-asserting its purpose and if we don't play up for the Press and have a weekly bus up with each other, and if that is what looks quiet as the grave, well quiet on that's all right. The point is as I know as members of the Party know, we are re-organising, we are sophisticating our organisation. We're doing what every defeated army should do in the wake of defeat. And that's consolidating our ground and as, doing a reconaissance and renovating ourselves for the kind of fight that we've got to put up.

JIMMY: Fair enough. I mean a comment which immediately comes to me is you may not be selling soap, but you're as sure as hell going to sell the Labour Party at the end of the day haven't you.

NEIL: But the Labour Party must sell itself.

JIMMY: Right. The thing is you can't keep your head down forever, even if it is down a bit at the moment and I might. Lord Wilson said last week, and you may have seen, or you will certainly have read. He said and I quote "he said, Kinnock must rid the Labour Party of extremists and unless the Party do a proper job of confronting them, Labour will cease to be the main Party of Opposition". Do you think that's a valid comment.

NEIL: We've got a democratic constitution. With definitions of the beliefs of our party. And for anyone who will accept those beliefs there's a very open welcome. It's when people very obviously don't accept those beliefs, and organising contradiction of those beliefs, that's when they're going to get into hot water

/Cont'd...

NEIL: (Cont'd...)

In the past, in the present and in the future. And I would be extremely firm about that. Now I'm not in the least bit interested in having a public quarrel with Harold Wilson, for whom I've a great deal of admiration. I wish I could win as many elections as he's won. But I I can't avoid the memory because I was clearly a member of the party right throughout all those years and have been since I was 14 years of age. That there was very little initiative taken under Harold's leadership in order to assert, define, clarify the ideology of the Labour Party. Possibly if it had taken place, we might not have experienced quite the upsets and divisions of the last three years.

JIMMY: You've said a few things there. Neil you have got fundamentally to do something. I know it's an awful modern word, but you've got to fundamentally do something about the image of the Labour Party haven't you. I mean the image was what cost you the last election. I mean the image was all wrong wasn't it. And at the end of day, by the next election, you've got to make the Labour Party look different. How are you going to make it look different and in what way do you want it to look different.

NEIL: Well I said to you earlier that it's up to the Labour Party. I mean

JIMMY: But you're the leader of it.

NEIL: Sure I understand that But it is, we live in a democratic society, the Labour Party is a voluntary movement. And the only kind of discipline that is effective in a voluntary movement in a democratic society is the self discipline, of the desire to win. And the desire to win in order to achieve objectives to ameliorate society, to advance society do a lot of other things. Now then, the reason I put the emphasis on the Party's obligation for winning is that I can develop any leadership technique that I want to and say anything that I want to do, and do anything I want to do. Unless I can carry the party with me, unless there's a root of feeling in the party that shares my objectives, then I'm a head without a tribe, I'm a general without an army. And that's not very good at all. So what the Party knows that it's got to do and is doing is to put its objections to Conservatism and to the Alliance rag bag before any divisions that it has amongst itself. To commit itself to campaigning To ensure that everything is done to

/Cont'd...

NEIL: (Cont'd....)

enhance the prospect of us winning the next election. Now when you have a party prepared to impose that self-discipline, democratically, upon itself then that's a party that can be lead to victory and to everything I

JIMMY: Right.

NEIL: Absolutely certain.

JIMMY: OK. Let me, let me I promise I'll only quote Harold Wilson once again. But he

NEIL: He said a lot of good things you know.

JIMMY: But he did. I like this one actually. He said that retrospectively he chastised both himself and Jim Callaghan for not promoting you. He said had they done so, you wouldn't be as lacking in administrative experience as you are. Now the thing that occurs to me is I mean it was a bit naughty I think. But still, it must be difficult for you as a relatively young man, and you are a relatively young man to lead a

NEIL: I'm supposed to be the politician Jimmy.

JIMMY: It must be difficult for you as a relatively young man, to lead a great Party, when you're surrounded by much older people, with vast experience. Like for instance Dennis Healey comes to mind, you know. Is that difficult for you.

NEIL: Not really. Partly because people like Dennis Healey, and several others are willing to subscribe their experience to have a discussion and to recognise me as the leader of the Labour Party. So we've got a good combination, there's good partnership. It isn't just Dennis, there are others too. But you mentioned the name and he's evidence of that attitude that exists and that partnership and it's very important. But I think the reason why I got the leadership of the Labour Party and why I'm fit to lead the Labour Party and fit to lead the country, is a combination of vitality and imagination. I think qualities that we need in this country, but also the fact without being sentimental, I'm an ordinary fellow with ordinary obligations. With a family, with the desire to care for the elderly in my family. With the absolutely strong desire to secure a future for my children. Now I'm not

/Cont'd...

NEIL: (Cont'd...)

saying that there are people who can't lead countries, who haven't got those immediate qualifications. But I really do think that given the difficulties that face our country and the needs that our country have, then those are qualifications that are useful replacements for experience. It's be lovely to have experience to go with it very nice, it'd be very handy But it isn't there and it would be silly to pretend that it is. I do however have if I may say in the greatest humility, other qualities.

JIMMY: Let me ask you about defence Neil. Now you and your wife are long standing members of CND. So you must share with them the commitment to ban all nuclear weapons.

NEIL: That's right.

JIMMY: And yet strangely enough, you see, what you're now saying is OK I'll get rid of Cruise, I'll get rid of the American bases, I'll scrub Trident

NEIL: The American nuclear bases.

JIMMY: Yes, yes. But I will hang on to Polaris. So what you're, it seems to me as a layman of saying, yeah I'll get rid of all nuclear weapons, but not quite all nuclear weapons.

NEIL: I begin first of all from the point at which I say our country must be properly and credibly defended. And therefore we have got to have the proper commitment to conventional army and navy and air force. Properly equipped. Capable of fulfilling its role inside the North Atlantic Treaty organisation. I don't think that it's pheasible for a country of our size and our responsibilities to sustain that proper conventional commitment and undertake the expenditures and the risks and the obligations that go with being a nuclear power. Now it seems that the majority of the British people agree with me, that our country is jeopardised by accommodating the Cruise missiles. I think that a lot more people understand that to spend ten thousand million pounds, ten thousand million pounds on the Trident replacement of Polaris 16 times more deadly, but nobody's going to be 16 times more safer, is a ridiculous way to use the resources of our country.

JIMMY: Let me move on to another nuclear weapon, rather closer to home and I refer to Tony Benn. How, how big an irritant to you is Tony Benn. I mean if, for instance, he were selected for Chesterfield. I mean if he is not selected, no problem. Supposing he's selected, aren't you onto a hiding both ways. In other words, if he wins the seat he's going to be in power and breathing down your neck. And if he doesn't win the seat, you've lost a by-election, which would be embarrassing to you.

NEIL: Well first let me say that I realise that you put the question convivially, but I think, I think that's it doing something of a dis-service to somebody who, whether you agree with him or not, is a distinguished public figure

JIMMY: Of course he is.

NEIL: And I don't really however much I agree, or disagree with the man want him referred to as a weapon.

JIMMY: Oh come on Neil

NEIL: I'm not being over-sensitive. But the fact

JIMMY: I mean the question could have started very simply with. How big an irritant to you is Tony Benn. Let's start there.

NEIL: And I appreciate your continuity, but nevertheless the fact is. We all make slips, God don't I know that myself. Now then Tony's not an irritant to me. I mean the fact is if I could be a leader of a party upset by an individual, it doesn't matter who it is, to the extent of being irritated. Then really I shouldn't be doing the job, should I. Now then as far as Tony is concerned and he is returned to the House of Commons, that matter will be decided upon by a constituency party. Currently the Chesterfield constituency.

JIMMY: Would you welcome him back. I mean would you like to see him back in the House of Commons.

NEIL: I consider that a man of his ability is an asset, and that's always been the case. But it isn't a question of welcome or not welcome. A party leader can't go around saying who he wants back and who he doesn't want back, because that's open season.

JIMMY: Can I ask you finally Neil, interesting sort of thing. We've been reading a lot about your kitchen cabinet and I mean we know that Mrs. Thatcher's image was subtly changed, the softer image, the voice was lowered and various things went on. And one reads that about Patricia Hewitt to name but a few. She's now choosing you nice sober clothes. There is even a mention that she's trying to get rid of your Welsh accent. Is, is

NEIL: That would require surgery.

JIMMY: It would be hard to do. But is packaging now part of being a political leader. You know as it was with Kennedy in America.

NEIL: Well yes I think that it is for a lot of people, but that's not, that's not our system, that's not how we act. You're talking about the sober clothes. I

JIMMY: Well you're looking very sober today.

NEIL: But I mean the point is I've had this for well I don't know a year. Do you want to see which my tailor is. Marks & Sparks, we are on commercial television so I can get away with that.

JIMMY: But it does go on, does it.

NEIL: Yes, but it, I mean it's not part of, it's not the way in which we approaching things. You mention the suits. I have got a newish suit I bought in September, when we came back from holiday. And I've bought one suit since, which is a dinner jacket. I bought a dinner jacket, but nobody's seen that yet.

JIMMY: You're going up market Neil.

NEIL: That was Marks & Sparks as well.

JIMMY: I'll tell you what. If I may, I'd like to involve our audience, because they've got some questions for you. Keith Johnson is in the middle row, somewhere. Have we got Keith yes, you have a question for Neil I believe.

KEITH: Yes. If the Alliance is a rag bag, why have you stolen our clothes. Because you seem to have done that with respect to the Common Market and to multilateral disarmament.

NEIL: Well that'd be almost impossible to achieve, indeed impossible. Since at least one section of the Alliance of course owes everything it has and all eminence it enjoys to the Labour movement. And now exists entirely having no independent ideas or propositions of its own. On on kicking the movement that gave it existence in the teeth. As for the Liberals, well I read an article, I think it was on Friday by Doctor Owen. Who was doing his best to at least distancing himself, but preferably to do it on terms that are satisfactory to him. Now then as far as stealing

NEIL: (Cont'd....)
your clothes are concerned, there literally is not a single idea or attitude that has been produced by the Alliance that any other political party in its right mind would want to embrace

JIMMY: Neil could I just, could I just ask you one thing. You referred to, you put them down a bit earlier on when you were talking to me and you referred to, you know, a rag bag and so on. Yet funnily enough, Harold Wilson in his speech he didn't refer to them as rag bags at all. He said they were a very intelligent group of people you know.

NEIL: Well as you know Jim, I've been insisting with other people in the Labour Party and Harold thankfully yes, very good he's still and will remain in the Labour Party, he's entitled to his opinion as other people are. I do recall the words of Shirley Williams that it would be foolishly said to form a centre party, because it would have no ideology, no philosophy, no morality. I think she was just about right.

JIMMY: OK. We've got Susie Armitage somewhere in the front row. Which is Susie. There's Susie. And you've got a question, which I know is dear to his heart, cos it's about medicine.

SUSIE: When the Labour Party next get, gain political power, will the Labour Government totally abolish private medicine and private health care.

NEIL: That's, that's, yes it is a shame. The, because of the way in which private care actually deprives the great mass of people who depend upon limited resources. The, as far as the. Somebody giving his name there Jim. Yes that's our undertaking and of course we proceeded with that under the last Labour Government with the reduction in the number of private beds and so on. And it's important to do that, not not as an active any, not as an act of persecution, but simply because of the need to mobilise all resources of skill and care in order that it can be best proerly used for the greatest number of people in need. And that's why it is on the basis, it's on the basis of comprehensive care needs, and not any

(X)

JIMMY: OK. Neil, let me go to the gentleman over there. Mr. Poppycock, which I'm sure, which I'm sure it not your name. Yes, what are you objecting to.

MR P: Mr. Kinnock. Sorry.

NEIL: This gentleman, that gentleman.

NEIL: I missed you question because

JIMMY: Well you said you said poppycock just now.

MAN: Yes I did.
Because the idea that private medicine detracts at all from the National Health Service is absolutely ludicrous. It actually adds to the service, it in, it adds to the service. It's intreaging, it's intreaging that Mr. Young and Mr. Kinnock, it's intreaging that nearly all the members of the Labour Party hierarchy have used private facilities in some time in the recent past. Is intreaging, it's intreaging that one of the biggest unions in the country, one of the biggest unions in the country chose to join BUPA and allowed their members and actually encouraged their members to join BUPA which is a private health care

/Cont'd...

MAN: (Cont'd...)
insurance scheme. And that's one of
the biggest unions in the country.
But why.

JIMMY: Let's give Neil a
chance to answer those.

NEIL: If it adds so much
to the National Health Service, I wonder
why it is that there are hardly any
private geriatricians who'se speciality
is in the care of the sick old.

JIMMY: Are you saying then
that they go for the best parts.

NEIL: Well of course.
The point is, the areas in which you
fill find private medicine operating
are in the areas of relatively quick
turnover, where those operating can
nestle inside an environment of excellenc
created by a National Health Service.
Let me say something further. That
if people when they were purchasing
private health insurance, were actually
paying the full bill, then the costs
would be utterly prohibitive.

JIMMY: Clive Fox someehwere.
Where's Clive Fox.

CLIVE: Mr. Kinnock, why do you find it so difficult to stand up and condemn the massive intimidation one has seen by pity, by pickets at Grunwick and Warrington.

NEIL: The massive difficulty I haven't experienced any of that. As it happened, on the night that got all the attention in Warrington, it was a Tuesday night as you may recall. At the beginning of December. It just so happens on the day before that took place, and I obviously had no knowledge that that kind of bust up was going to take place. Well of course I didn't. Nobody else did. I mean these people were actually paid to find out about it, didn't. And the, on the previous afternoon, I'd been at, actually my own National Executive Council, my own Trade Union. And condemned violence on picket lines. Now I have no difficulty in making that kind of condemnation, because what I have to say to you is this, you see. The whole history of the British Labour Movement in its development industrially and politically has been one of calm and absence of violence and if you want demonstrations and that, just look at the way in which say Belgian steel

/Cont'd...

NEIL: (Cont'd...)

workers respond to a plant closure.
And compare it with British closures.
Look at yesterday's papers and the use
of guns by workers.

JIMMY: Talbot factory.

NEIL: There is nothing
remotely like that and never will be
anything like that.

JIMMY: But there is a thing

NEIL: So why are you playing
up the violence angle, simply in order
to kick the Trade Union movement.
It is not political, it is not typical
When it unusually occurs, of course
I will condemn it.

JIMMY: Neil, there's a couple
of things I'd like to ask you. So
with respect, the violence on the NJA
picket line wasn't actually caused by
NJA members, as you well know. But
that's not the point. The point is
that in the House of, it's a thing that
intreaged me. In the House of Commons
you were given several opportunities
to get up and condemn it and you didn't.
You took a long time about it.
Eventually you did. Eventually you did.

/Cont'd..

JIMMY: (Cont'd...)

When you did, your justification for not speaking was, you said that when you stood up, the Tory back benchers all jeered and bayed was the expression that you used. And I couldn't believe that. I mean you are, not only a rugby player, you're a Welsh rugby player, which makes you a very hard nut indeed. And I cannot believe that that Welsh rugby player was going to let a few Tories jeering at him, put you off on something as important as that.

NEIL: That's not the point at all. It's, it is because I might be a hardish nut that I am not going to do what I want to do, because the people on the other side are asking me to do it.


JIMMY: But you see if people feel very strongly about

NEIL: I pick my own time my own place, my own words to say what I want to say. I don't do it simply because people on the other side, I'm not going to give them the credit for provoking me into making a statement.

JIMMY: Didn't it give your critics an opportunity to say you see there he is, he won't stand up to the hard left, he is indecisive. Didn't it give them a chance to say that.

NEIL: If, if people are so blind and inadequately informed as to come to that conclusion, then nothing that I say or do is going to convince them. If they're looking at the detail, if they're looking at the facts, if they are being in any sense objective, they're
But of course Tory backbenchers, as far as I'm concerned, I don't expect them to be objective. I do expect them to bay, I do expect them to shout. They don't make any difference at all to me one way or the other.

JIMMY: Could I ask you one final thing, cos we're very nearly out of time. If, if and when you become Prime Minister, what qualities do you think you would bring as Prime Minister that are perhaps not in our present Prime Minister.



NEIL: The most important thing is, the most important things is to be modern. To be modern.

JIMMY: To be modern.

NEIL: To be of this age for this age. To be free of half-buried vanities. Ideas that come only from the past. To be, to be committed to the idea that we have to produce our way out of slump in this country and not cut our way into further recession, which is what is happening now. To understand that caring makes economic sense. That in a modern society you can't discharge three, four million people from employment and think they cost nothing. To understand finally that we have got a real roll in the world. It is to maximise trade it is to defend civil rights and it is to recognise the size of our country and the kind of greatness we can have. And stop trying to wrap ourselves in a flag, that with some actions we disgrace by simply using as a public relations artifact.

JIMMY: Neil thank you very much there. It was really great to see you again and to talk to you again, lovely. Thanks to you audience for coming in. Hope very much at home that

/Cont'd....

JIMMY: (Cont'd...)

you found the programme interesting.
Join us next week, we'll be back at
11 o'clock Sunday night. See you
then, til then 'bye.

ROYAL ORDNANCE FACTORIES

A brief for the Debate on the
Ordnance Factories and Military
Services Bill on Monday, 16th
January 1984

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ORDNANCE FACTORIES AND MILITARY SERVICES BILL

1. Introduction

The Ordnance Factories and Military Services Bill was published on the 19th December 1983. Legislation was originally promised by the former Defence Secretary, Sir John Nott, on 20th May 1982, when he stated that:

"The Government have considered carefully the best way of making changes to the constitution of the Royal Ordnance factories, in order to ease the existing constraints on their operation and to allow them to function more competitively.

"We have now decided that, subject to parliamentary approval, the ROFs should no longer operate under the Government Trading Funds Acts 1973, but in a more commercial environment under the Companies Act. This will, of course, require legislation..." (Hansard, Written Answers, Col 151)

In a statement on 19th December 1983, the Defence Secretary, Mr Michael Heseltine, said:

"The Government's objective is to build on the present success of the Royal Ordnance factories as a vital part of the British Defence industry - a major supplier to the British Services and an important exporter - by enabling them to operate in a fully commercial environment. The ROFs present and proven, manufacturing capability is being enhanced by the creation of its own sales organization; it is also planned that the new organization should have its own research and development capability.

The present employees in the ROF organization, with some other MOD staff, will transfer to the new organization on terms broadly comparable to those on which they are serving at present as Civil Servants. The Ministry of Defence will be consulting the Trade Unions over all aspects of the transfer.

The plan, subject to parliamentary approval of the Government's proposals, and the enactment of the Bill, is for a Vesting Day of the new organization in Autumn 1984. The introduction of private capital thereafter, and when and how this would best be done, is under consideration."

2. The Current Structure of the Royal Ordnance Factories

- a.) There are thirteen factories, two of which are managed by Managing Agents, located as follows:

Birtley, Co Durham
Bishopton, Renfrewshire
Blackburn, Lancs
Bridgwater, Somerset
Chorley, Lancs
Enfield, Middlesex
Glascoed, Gwent
Leeds, Yorkshire
Nottingham, Notts
Patricroft, Lancs
Radway Green, Cheshire
(Featherstone, Staffs (Managed by Wimet)
(Powfoot, Dumfriesshire (Managed by Nobels Explosives))

b.) The number of employees as at 1st December 1983 were:

<u>Factory</u>	<u>Non-Industrial</u>	<u>Industrial</u>	<u>Total</u>
Birtley	372	1178	1550
Bishopton	499	1673	2122
Blackburn	649	1708	2357
Bridgwater	247	599	806
Chorley	664	1673	2337
Enfield	365	796	1161
Glascoed	498	1256	1754
Leeds	499	1104	1603
Nottingham	386	829	1215
Patricroft	399	938	1337
Radway Green	347	1335	1682
Headquarters	402	2	404
Totals:	<u>5278</u>	<u>13051</u>	<u>18329</u>

c.) Two Agency Factories are involved in the ROF's current operations - one at Featherstone, Staffs, employing some 156 people on the manufacture of hard alloy components, and managed by Wimet Limited; and the other at Powfoot, Dumfriesshire, employing some 126 people on the manufacture of propellants, and managed by Nobels Explosives Company.

3. Financial Record and Sales

a.) The ROFs have a sound track record and have consistently recorded profits since the inception of the Trading Fund on 1st July 1974.

Following substantial growth in sales and profits in the years 1978/79 when activity was high because of work on Iranian orders, the ROFs have had to deal with the cancellation of large orders from Iran, reduced demand from the home customer, and very damaging industrial action which reduced profits by about £15M in 1980/81. A recovery began in 1981/82 and has continued; 1982/83 sales being in real terms higher than that achieved in any previous year. Firm management action was taken to realign resources with demand and this has restored

profitability to a very satisfactory level.

Accounts for the year ended 31st March 1983, show sales of almost £450M and profit for the year after interest of more than £68M. For 1982/83 the total cost of wages and salaries was some £131M.

b.) The ROFs have a number of substantial customers in different parts of the world. The Government does not normally disclose details of individual orders, but two examples of current ROF sales activities are:

- Contracts for rocket motors from two leading missile producers
- Good prospects for a more substantial order for the 81 mm mortar system and ammunition

When the ROFs become a company with their own sales arm they will themselves fully finance their overseas sales. At the present time there is a mix whereby some orders are Vote financed but new orders will be ROF financed.

The ROFs' markets are fairly widespread and include customers in the Middle East, Europe and North America. Great efforts are being made to open up new markets and some notable successes have been recently achieved in the face of fierce international competition.

4.A Description of the Bill

The purpose of the Bill is to enable the Royal Ordnance factories to be constituted as a company or companies under the Companies Acts. The Secretary of State may transfer to one or more companies wholly owned by the Crown any property, rights and liabilities used in connection with operations of the Royal Ordnance factories. Such transfers are to be made by means of one or more schemes defining the property, etc. to be transferred. Securities in the form of shares or debentures, may be issued in consideration of any transfer. The Bill enables the ROF Trading Fund to be wound up so that a new financial structure for the company or companies can be created. Provision is made for the payment of compensation to any third party who is adversely affected by the transfer of property, rights and liabilities.

The main clause of the Bill (clause 1) gives statutory force to the schemes which may be made by the Secretary of State which transfer property, rights and liabilities. Schemes may not be made without consulting any transferor or transferee company and obtaining the consent of the Treasury. Transfers may be made from the Secretary of State to any company, or between two or more companies, or from companies to the Secretary of State. Schemes may be made only in respect of wholly owned companies. This clause also provides for the establishment of reserve funds to

be specified by scheme, thus allowing the most suitable capital structure for the company or companies to be made.

The property, rights and liabilities which may be transferred from the Crown by the schemes are defined by the Bill as those which are, or have been certified as being, attributable to the operations of the ROFs. Subsequent transfers of property between companies, or back to the Crown, may include property outside the extent of this clause.

Any transfer of property, etc. will be binding on third parties, and all previous agreements, transactions, etc. shall be construed as if they had been made with the transferee. Compensation may be paid by the Secretary of State where the rights of the third parties have been adversely affected by the transfer, and third parties may seek arbitration in any dispute arising.

The Transfer of Undertakings (Protection of Employment) Regulations 1981 are specifically applied to personnel who are transferred from the Crown to the new organization. Such transfer is not to be treated as a retirement on redundancy.

The Secretary of State or the Treasury, or their nominees, may acquire securities, or rights to subscribe for securities, in companies or their subsidiaries at any time, both during and after the period of sole ownership by the Crown. The proceeds from any disposal of securities, as well as any dividends or other sums received on these securities, will be paid into the Consolidated Fund. As soon as the company concerned ceases to be wholly owned by the Crown, the Secretary of State must set an investment limit for the Government shareholding. This limit may be subsequently reduced, but not increased. The Bill also includes a clause allowing trustee funds to make investment in the company or companies which might otherwise not be allowed.

Clause 14 is unrelated to the rest of the Bill. It meets Parliament's wishes that statutory cover should be taken to provide for sums paid by the Secretary of State in connection with his sole shareholding in International Military Services Ltd (the commercial aim of the Defence Sales Organization) or in consequence of arrangements for financial support given to that company to be paid out of money provided by Parliament. Such financial support is limited to £50M with a further £50M by order on affirmative resolution of the House of Commons.

5. The Introduction of Private Capital

The Bill is plainly part of the broad strategy of privatisation. However, at the present moment, the Government is concentrating on incorporating the ROFs as a Government-owned company. The introduction of a private capital is the second stage, which would come later. There are a number of ways in which private capital could be introduced and Mr Heseltine will be discussing these with Mr Frederick Clarke, the Chief Executive of the ROFs, over the coming months.

What the Government wants above all - and what it will be in the interests of the Services, the workforce and the taxpayer to secure - is a fully profitable organization to be launched into the market-place. The Government does not rule out sale of parts of the organization, but concerned as it is to increase rather than reduce competition in the defence industry, it does not envisage piecemeal sales to existing companies especially to the disadvantage of the business as a whole.

6. Pension Transfer Values

A new pension scheme will be formed when the companies are set up. Employees of the Royal Ordnance factories who are transferred to these companies will cease to be members of the Principal Civil Service Pension Scheme and will join the new scheme. On transfer, they will be given the choice between preserving their accrued pension rights in respect of civil service employment in the PCSPS and transferring them to the new scheme. Actuarially assessed transfer values will be paid by the Government into the new scheme in respect of those employees who opt to transfer their pension rights. The Explanatory and Financial Memorandum refers to potential transfer values of up to £250 million. This figure represents the estimated maximum which would be required if all employees opted for transfer.

These transfer payments are not new or additional expenditure: they represent the bringing forward of liabilities that would, in any case, have fallen to be met by the Government when the people concerned came to retire. In exchange for the transfer payments, the new pension scheme will take over the Government's liability to pay those pensions. The amount of the transfer value is assessed, broadly, as the present-day value of the sum involved. It therefore makes little sense to measure these transfer payments against the expected receipts from privatising the Royal Ordnance factories, as was done in some press reports when the bill was published.

7. Some Questions and Answers

- Q. How will you ensure that the ROFs continue to meet the MOD's requirements for the armaments?
- A. The MOD is sure it can rely on the ROFs to the same extent it does with other sectors of the defence industry supplying essential equipment. As it does with the latter, it will secure its requirements by contract. The vigour and cooperation shown by defence contractors during the Falklands conflict is ample proof of the reliability of the suppliers.
- Q. How will you protect national interests in placing the means of armament production in private hands?

- A. It is important to have efficient producers of equipment for the Services, and this is best achieved in a commercial environment. The national interest will continue to be protected in the normal way, confidential information being protected under the Official Secrets Act. Defence technology is unlikely to fall into the hands of the ROFs' competitors as a result of privatisation except to the extent that the new organisation itself deliberately licenses others to use it.
- Q. What will happen to the reserve capacity of the ROFs on which the MOD can currently rely in an emergency?
- A. Future requirements will be secured by contract, and reserve manufacturing capacity can similarly be secured. Increased efficiency in the ROFs in a commercial environment will help to ensure that such resources are put to best use.
- Q. Will the change of status lead to redundancies?
- A. No. Under the present Trading Fund system the size of the ROF workforce is dictated by the size of the order book and future sales prospects. These determining factors will continue to apply both before and after the change proposed for the ROFs.
- Q. What if the new company decides to close factories or cut down manpower for sound commercial reasons?
- A. The new organization will provide comparable redundancy provisions for its employees to those they have currently in the Civil Service Pension scheme. The details of these provisions will be discussed with the Trade Unions in the coming months.
- Q. Is the main reason for this decision the need for the MOD to reach its manpower targets?
- A. No. Economy measures which have already been introduced will ensure that the MOD meets its share of reductions as part of the Government's stated policy of reducing the size of the public sector; although the present proposal for the ROFs will have the effect of further reducing Civil Service numbers. The primary reason for the change is to enable the ROFs to operate more efficiently and cost effectively in a commercial environment.
- Q. What security of employment will the workforce have after vesting day?
- A. The Government believes that the efficiency of the ROFs will be increased as a result of the freedom of action they will acquire on becoming part of the private sector and this in

turn will lead to increased profitability. This is the best assurance there can be of future security of employment within the organization.

- Q. Surely jobs would be more secure if the ROFs remained part of the MOD?
- A. This is not the case. It has been necessary over the past few years to reduce the numbers employed in the ROFs. Their continuation on the present basis could not be a guarantee against the necessity of further reductions in the years to come. The best safeguard for employment is a healthy and productive trading position which it is our intention to secure by means of privatisation.

8. The Opposition's Attitude to the Bill

Mr Neil Kinnock, the Leader of the Opposition, said on 22nd December 1983 that:

"The Opposition will want to examine the way in which the Ordnance Factories and Military Services Bill puts private profits before the nation's defence interests". (Hansard, Col 569)

The Social Democratic and Liberal Parties are also reported to be opposed to the bill.

A.30

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FROM: ADAM RIDLEY
11 January 1984

CHANCELLOR

MEETING WITH MR GUMMER ON JANUARY 10TH: FOLLOW-UP

There are one or two questions to pursue in the light of what was said yesterday.

Public Spending Survey

2. We are to submit a new, shorter and less ambitious proposal. If you want to get anything in time for some public initiative in early March, then we need to get moving pretty quickly. I'm not entirely clear in my mind how much room for manoeuvre we might have. There is a world of difference between spending £1,500, and even as little as £5,000 or £6,000. It might, therefore, be sensible for me to try to probe a bit more closely to see just what the room for manoeuvre is. The other half of the question is what we would find most important to put back from such a survey. I can offer you some very preliminary thoughts on this if you would like; but it would be helpful if you could indicate soon - perhaps on the margins of Chevening if not before - whether there are any priorities to which you attach particular importance. One obvious area to drop or to playdown considerably would be the tax side. But there would be considerable disadvantages if we probed absolutely nothing about this.

VED Mini-Survey

3. I could not discern an entirely precise answer to your request in the various things Mr Gummer had to say about this. Essentially he seemed to be countering your request for even the most modest array of little questions on the grounds that they would be meaningless, since attitudes could change so much if the issue became a live one. Perhaps the best thing would be if I contacted his office informally to ask him if he would object to our trying out literally just the very small number of questions we identified the other day, which we do need to get answers to pretty soon if they are to be of any use. I doubt whether the fee would be much more than £400. I am sure it would be wise to pursue this issue separately from the wider public spending one, as before.

Local Authority Bill

4. I have put to you separately a draft letter about the need for Mr Gummer's campaign to deal with the arguments advanced by the

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opponents of the abolition of the metropolitan authorities.

CRD

5. I refrain from intervening in your exchanges with Mr Gummer on this. But I think I have to stress that what he said was, even if strictly true now, certainly not true of the position until very recently. He said pretty explicitly that if the right person could be found, then cash should be no obstacle. We should certainly cling to this. The sad fact is, however, that without the knowledge that that financial freedom exists, there has been little scope for framing the job specification, let alone advertising, in any confidence that one could make it look attractive, realistic, and likely to stimulate any interest. I shall pursue this yet again with Peter Cropper and report back, since I am still distinctly uneasy about how things are developing, and am inclined to the view that you may want to talk to Tom Arnold about the matter shortly if my anxieties are confirmed.

AR

A N RIDLEY

PS. I have just spoken
to PSC who thinks he has at
last got a very strong
candidate. His money needs are
reasonable, but there is ~~very~~ ^{some} likelihood
they will put JSC's people to the test. I will report any
significant developments.



FROM : M D X PORTILLO
DATE : 11 JANUARY 1984

CHANCELLOR

cc David Hunt MP
Hon Mark Lennox-Boyd MP
Peter Viggers MP

MEETING WITH PPSs : WEDNESDAY 18 JANUARY

You asked me to collect views on how you should handle your meeting with PPSs. I have spoken to the three copy recipients, and am very grateful for their advice.

General Tone

2. Everyone is agreed on two things. First, it is important to make the PPSs feel special, an annexe to the Government, not merely backbenchers. You need to find something "different" to say to them, and to speak to them in confidence. Second, it is their meeting. They want to give you their views, and you must allow time for that.

Length of Remarks

3. David and Mark believe you should keep your remarks very short - five to ten minutes. Peter thinks you should not speak for less than ten minutes, as anything else may appear peremptory and may give the impression that you have not given much thought to the occasion. I tend to agree with Peter, although in order to take as many points from the floor as possible, I think it very important that you should keep your answers to questions very short.

Subject Matter

The wide view

4. Peter thinks that the Ministers who have been most successful at these meetings have begun with a quick walk round the waterfront of their subject. This might involve you mentioning the world scene, and briefly reviewing how the strategy has evolved and succeeded for 4½ years.

The Budget Prospect

5. Those of us at this morning's meeting are all agreed that the crux of your speech should be along the lines of your remarks at Prayers this morning. You would describe how the Autumn Statement framework has changed the convention so that the Chancellor now gives his view of the Budget prospect at that time. You would state how you see the prospects for this budget, and for tax-cutting over the course of Parliament. You would then confidentially describe your ambition not only to reduce taxes, but also to reform them. And you would give a modest assessment of the prospects for that in this Budget. You would invite the PPSs views on tax reform.

Forecasts

6. You may wish to consider developing your line that our lives, or at least our newspapers, are overly-dominated by "teeny-bopper pundits". You would draw the contrast with the Treasury's highly successful forecasting record.

LTPE

7. It is for consideration whether to mention this subject in your opening remarks. I think there may be some merit in doing so, rather than increasing the impression of back-peddalling by allowing the PPSs to drag the subject out of you during questioning, but Mark and Peter advise against your mentioning it in your opening remarks. They believe that might give it a prominence that you do not wish to ascribe to it at present.

Rate capping

8. You are speaking the day after the debate and it may be that you then have some interesting reflections to impart. But on the whole, we advise against allowing your remarks to be deflected by the week's events. The PPSs think that a more reflective tone and the longer view are more appropriate for the occasion.

9. You will not want to speak from an overly-prepared text on this occasion. But please let me know of any further preparatory work - preparation of an outline or notes perhaps - that you would like.

Public Opinion Background Note 20
(produced 15th January 1984)

1. Introduction

The result of our first 1984 Gallup 'tracking' study conducted from 6th to 9th January continued the trend Gallup had found in late 1983. The latest study when compared with the last of the 1983 studies (conducted 7-12 December) found the Conservative lead over Labour falling from 6% to 3%, the proportion of the electorate claiming they would vote Conservative falling from 42½% to 41%, and the proportion claiming they would vote Labour increasing from 36½% to 38%. The proportion claiming they would vote Alliance remained almost constant - 19½% before Christmas compared with 20% in the latest study.

2. Voting Intention

The two tables below show voting intention when 'don't knows' have been excluded (the conventional way of presenting opinion research figures) and when don't knows are shown as a separate category.

(a) Voting Intention (excluded don't knows) - all figures are percentages

	<u>Con</u>	<u>Lab</u>	<u>Lib</u>	<u>SDP</u>	<u>Others</u>	<u>Con lead over Labour</u>	<u>Alliance (SDP & Liberal)</u>	<u>Con lead over Alliance (Liberal & SDP)</u>
	%	%	%	%	%	%	%	%
<u>1983</u>								
General Election 1983	42.4	27.6	13.7	11.6	4.6	+14.8	25.3	+17.1
29 June/4 July	46.5	25.5	12.0	15.0	1.0	+21.0	27.0	+19.5
7-11 July	44.0	28.5	11.0	15.0	1.5	+15.5*	26.0	+18.0
13-18 July	42.0	26.0	14.0	16.0	2.0	+16.0	30.0	+12.0
21-25 July	41.0	29.0	13.0	16.0	1.0	+12.0	29.0	+12.0
28 July/1 August	43.5	26.0	14.0	15.0	1.5	+17.5	29.0	+14.5
3-8 August	45.0	26.5	11.0	15.0	2.5	+18.5	26.0	+19.0
10-15 August	44.5	25.0	13.0	16.0	1.5	+19.5*	29.0	+15.5
17-22 August	44.5	25.0	12.0	16.5	2.0	+19.5	28.5	+16.0
24-30 August	45.0	27.5	12.0	14.0	1.5	+17.5	26.0	+19.0
31 August/5 September	44.0	27.0	11.0	16.0	2.0	+17.0	27.0	+17.0
7-12 September	45.5	24.5	10.5	18.5	1.0	+21.0*	29.0	+16.5
14-19 September	43.0	24.5	12.0	19.0	1.5	+18.5	31.0	+12.0
21-26 September	41.0	26.0	16.0	15.0	2.0	+15.0	31.0	+10.0
28 Sept - 3 Oct	46.0	24.0	12.5	16.0	1.5	+22.0	28.5	+17.5
5-10 October	42.0	36.0	10.0	12.0	2.0	+8.0	22.0	+20.0
12-18 October	43.5	40.0	6.5	9.0	1.0	+3.5	15.5	+28.0
19-24 October	42.5	35.5	9.5	10.5	2.0	+7.0*	20.0	+22.5
26-31 October	42.5	37.0	9.5	9.0	2.0	+5.5	18.5	+24.0
2-7 November	41.5	37.5	9.0	10.0	2.0	+4.0	19.0	+22.5
9-14 November	43.5	36.0	11.0	8.5	1.0	+7.5*	19.5	+24.0
16-21 November	41.0	38.0	8.0	11.0	2.0	+3.0	19.0	+22.0
23-28 November	41.0	37.0	13.0	8.0	1.0	+4.0	21.0	+20.0
30-5 December	44.0	38.0	8.0	9.0	1.0	+6.0	17.0	+27.0
7-12 December	42.5	36.5	8.0	11.5	2.0	+6.0*	19.5	+23.0
<u>1984</u>								
6-9 January 1984	41.0	38.0	10.0	10.0	1.0	+3.0	20.0	+21.0

* Published in the Daily Telegraph

(b) Voting Intention (including don't knows)

	<u>Conservative</u>	<u>Labour</u>	<u>Liberal</u>	<u>SDP</u>	<u>Others</u>	<u>Don't Know</u>	<u>Conservative lead over Labour</u>
	%	%	%	%	%	%	
<u>1983</u>							
29 June/4 July	43.0	24.0	11.0	14.0	1.0	6.0	+19.0
7-11 July	41.0	27.0	10.0	14.0	1.0	6.0	+14.0
13-18 July	39.0	24.0	13.0	15.0	2.0	7.0	+15.0
21-25 July	39.0	27.0	12.0	16.0	1.0	5.0	+12.0
28 July/1 August	41.0	24.0	13.0	14.0	1.0	7.0	+17.0
3-8 August	43.0	25.0	11.0	15.0	2.0	5.0	+18.0
10-15 August	42.0	23.0	12.0	15.0	2.0	6.0	+19.0
17-22 August	41.0	23.0	11.0	15.0	2.0	7.0	+18.0
24-30 August	41.0	25.0	11.0	13.0	1.0	9.0	+16.0
31 August-5 Sept	41.0	25.0	10.0	15.0	1.0	7.0	+16.0
7-12 September	41.0	21.0	9.0	16.0	2.0	12.0	+20.0
14-19 September	40.0	23.0	11.0	18.0	1.0	7.0	+17.0
21-26 September	39.0	25.0	15.0	15.0	2.0	5.0	+14.0
28 Sept - 3 Oct	43.0	23.0	12.0	14.0	1.0	7.0	+20.0
5-10 October	38.0	33.0	9.0	10.0	1.0	8.0	+5.0
12-18 October	41.0	37.0	6.0	8.0	1.0	7.0	+4.0
19-24 October	40.0	34.0	9.0	10.0	2.0	6.0	+6.0
26-31 October	40.0	35.0	9.0	9.0	1.0	7.0	+5.0
2-7 November	38.0	35.0	8.0	9.0	1.0	8.0	+3.0
9-14 November	41.0	33.0	10.0	8.0	1.0	7.0	+8.0
16-21 November	39.0	36.0	8.0	11.0	1.0	6.0	+3.0
23-28 November	38.0	34.0	12.0	8.0	1.0	8.0	+4.0
30 Nov-5 Dec	41.0	35.0	7.0	9.0	1.0	7.0	+6.0
7-12 Dec	40.0	33.0	8.0	11.0	2.0	7.0	+7.0
<u>1984</u>							
6-9 January 1984	39.0	36.0	9.0	10.0	1.0	6.0	+3.0

3. Government Record

The latest study found 40% approving of the record of the government to date (38% in the last 1983 survey), 48% disapproving (50% in 1983) and 12% with no view (12% in 1983). Details are given in the table below:-

GOVERNMENT RECORD

	<u>Approve</u>	<u>Disapprove</u>	<u>Don't Know</u>
29 June/4 July (%)	48	39	13
7/11 July (%)	46	43	10
13/18 July (%)	44	44	12
21/25 July (%)	41	48	11
28 July - 1st August (%)	44	43	13
3/8 August (%)	46	44	10
10/15 August (%)	44	45	11
17/22 August (%)	45	45	10
24/30 August (%)	44	46	11
31 August - 5 September (%)	41	47	11
7/12 September (%)	47	42	11
14/19 September (%)	44	43	13
21/26 September (%)	43	46	11
28 Sept - 3 October (%)	43	47	10
5-10 October (%)	40	46	14
12-18 October (%)	42	45	13

GOVERNMENT RECORD

	<u>Approve</u>	<u>Disapprove</u>	<u>Don't Know</u>
7-24 October (%)	41	47	13
26-31 October (%)	41	46	13
2-7 November (%)	40	48	12
9-14 November (%)	40	49	11
16-21 November (%)	39	50	11
23-28 November (%)	38	47	15
30 Nov- 5 Dec (%)	39	48	13
7-12 Dec (%)	38	50	12
<u>1984</u>			
6-9 January (%)	40	48	12

4. Popularity of Political Leaders

The first 1984 study found no change in Mrs Thatcher's popularity - 47% claimed to be satisfied with her as Prime Minister, 49% dissatisfied and 5% had no view. Mr. Kinnock's popularity has improved after the drop recorded in the last of the 1983 surveys. There was a slight (but not significant) fall in the popularity of both Mr. Steel and Dr. Owen.

	<u>Mrs Thatcher</u>			<u>Mr. Foot</u>		
	<u>Satisfied</u>	<u>Dissatisfied</u>	<u>Don't Know</u>	<u>Is Good Leader</u>	<u>Is Not Good Leader</u>	<u>Don't Know</u>
	%	%	%	%	%	%
<u>1983</u>						
29 June/4 July (%)	54	41	5	10	85	5
7/11 July (%)	52	44	4	11	82	7
13/18 July (%)	48	47	5	10	84	6
21/25 July (%)	49	48	3	11	84	5
28 July/1 Aug (%)	51	46	3	10	83	6
3/8 August (%)	55	41	3	12	83	6
10/15 August (%)	51	46	3	10	84	6
17/22 August (%)	53	44	3	10	81	8
24/31 August (%)	50	45	5	11	83	7
31 August/5 Sept (%)	47	46	7	10	84	6
7/12 September (%)	53	43	4	9	84	7
14/19 September (%)	51	43	6	9	84	7
21/26 September (%)	51	45	5	11	82	7
28 Sept/3 Oct (%)	51	44	5	9	83	9
				<u>Mr. Kinnock</u>		
5/10 October (%)	47	47	6	61	14	25
12/18 October (%)	48	46	6	61	14	26
19/24 October (%)	48	47	5	58	17	25
26/31 October (%)	47	48	4	62	14	24
2/7 November (%)	47	50	3	50	17	33
9/14 November (%)	49	47	4	48	14	37
16/21 November (%)	46	50	4	48	15	37
23/28 November (%)	48	47	5	47	16	36
30 Nov/5 Dec (%)	49	47	4	48	22	30
7/12 December (%)	47	48	5	40	20	39
<u>1984</u>						
6-9 January (%)	47	49	5	46	22	31

	<u>Mr. Steel</u>			<u>Dr. Owen</u>		
	<u>Is Good</u>	<u>Is Not Good</u>	<u>Don't Know</u>	<u>Is Good</u>	<u>Is Not Good</u>	<u>Don't</u>
	<u>Leader</u>	<u>Leader</u>		<u>Leader</u>	<u>Leader</u>	<u>Know</u>
	%	%	%	%	%	%
<u>1983</u>						
29 June/4 July (%)	75	16	9	57	18	26
5/11 July (%)	72	14	13	55	19	27
13/18 July (%)	73	15	12	54	19	26
21/25 July (%)	74	13	13	56	17	25
28 July/1 Aug (%)	74	12	14	52	19	30
3/8 August (%)	74	16	10	54	20	26
10/15 August (%)	71	15	14	54	19	27
17/22 August (%)	67	18	15	53	18	29
24/30 August (%)	64	21	14	51	20	29
31 Aug/5 Sept (%)	62	22	16	53	21	26
7/12 Sept (%)	65	22	13	54	20	25
14/19 Sept (%)	67	18	15	61	15	24
21/26 Sept (%)	70	17	14	55	18	27
28 Sept/3 Oct (%)	69	17	15	57	19	28
5-10 October (%)	56	26	19	47	24	29
12-18 October (%)	58	24	18	46	24	30
19-24 October (%)	60	23	17	48	25	27
26-31 October (%)	54	28	17	48	24	28
2-7 November (%)	59	24	17	47	22	30
9-14 November (%)	63	21	16	47	24	29
16-21 November (%)	60	23	17	46	24	30
23-28 November (%)	64	20	16	45	24	31
30 Nov - 5 Dec (%)	61	25	15	48	26	26
7-12 December (%)	64	21	15	51	23	26
<u>1984</u>						
6-9 January (%)	62	22	16	48	24	28

5. Published Polls

(a) Harris (Thames News 29th December 1983)

The Thames News programme on 29th December included details of a Harris poll conducted in Greater London on 13th and 14th December. They found 67% claiming to be aware of the government's plans for the G.L.C. - 59% knew of the government's plans to abolish the G.L.C.

Harris asked respondents whether they thought the G.L.C. has done it's job well or badly - 16% thought it had done it's job very well, 41% fairly well, 22% neither well nor badly, 12% fairly badly, 8% very badly and 1% did not have a view. When asked about the government's decision to abolish the G.L.C. - 22% claimed they approved, 59% disapproved and 1% did not have a view.

Harris asked respondents how important they thought it was that London has a single body for services - 55% thought this was very important, 23% fairly important, 10% not very important, 5% not at all important and 6% did not have a view. They also asked how important respondents thought it was that the body responsible for services is elected. 64% thought it was very important, 12% fairly important, 2% not very important, 1% not at all important and 20% did not have a view.

(b) Gallup (Daily Telegraph 27th December 1983)

The Daily Telegraph on 27th December included details of a Gallup poll conducted in a number of countries during November and December.

Gallup asked:-

"So far as you are concerned, do you think that 1984 will be better or worse than 1983?"

The replies are shown in the table where "+" indicates a lead of optimists over the pessimists and "-" indicates the reverse.

	<u>Optimistic Countries</u>
Argentina	+81
South Korea	+61
USA	+55
Canada	+45
Australia	+38
Venezuela	+32
Greece	+23
Finland	+14
Spain	+12
Chile	+10
Japan	+10
Norway	+ 9
Switzerland	+ 9
Denmark	+ 8
Uruguay	+ 5
West Germany	+ 4
Colombia	+ 4
India	+ 2
Brazil	0
	<u>Pessimistic countries</u>
United Kingdom	- 1
Italy	- 9
Sweden	-11
Luxembourg	-12
Costa Rica	-22
France	-27
Holland	-27
Portugal	-27
Austria	-32
Bolivia	-35
Eire	-36
Belgium	-45
Philippines	-47

So far as the British are concerned, the main worries were that the coming year will see rising prices, increased unemployment, more industrial disputes, higher taxes and trouble abroad.

A majority (53%) expect 1984 to be a year of economic difficulty with only 13% taking an optimistic view.

The public is likewise pessimistic on employment prospects, with 52% expecting unemployment to increase next year.

A majority (55%) also think that 1984 will be a year of strikes and industrial disputes while 16% think the industrial scene will be peaceful.

The Chancellor's statement in his recent mini-Budget that he may be forced to raise taxes next year has registered with the public. Two in three (65%) believe that taxes will rise next year and only 7% expect them to fall.

With conflicts in Grenada and the Lebanon, and possibly heightened tension with the arrival of the American-controlled cruise missiles in Britain, the public takes a particularly pessimistic view of international relations in 1984.

Finally, Gallup asked for people's perceptions of Russia, China, and America in the new year. Forty per cent think that Russia's power in the world will increase and 35% that China's power will increase.

But 54% think that the power of the United States will rise. Never, in the last 26 years of asking the question, has the proportion for America previously topped the 50% mark.

The same issue of the Daily Telegraph included details of another Gallup survey on '1984'. They found a majority of British people believe that Governments manipulate information and ideas to condition the public opinion. They survey conducted in Britain, West Germany and Switzerland shows that a majority of Britons believe that there is no real privacy in the United Kingdom. Details are shown below:

Move towards the ideas of '1984'

	<u>GB</u>	<u>West Germany</u>	<u>Switzerland</u>
There is no real privacy because the Government can learn anything it wants about you.	72	38	37
The Government uses false words and statistics to hide bad news about the economy and quality of life.	68	26	28
People are asked to make great economic sacrifices but Government officials, themselves, live in luxury.	67	50	28
Poor people think their only chance to get ahead in life is to win a lottery.	56	51	44
The country is ruled by a dictator.	20	7	5

	<u>GB</u>	<u>West Germany</u>	<u>Switzerland</u>
The Government urges people to surrender freedom in order to gain greater security.	18	23	16
The Government says the only way we can have peace is by waging war.	14	13	13
The Government urges citizens to hate people in other countries.	12	12	20
Anybody who criticises the Government is severely punished.	7	11	12
The Government hopes that some day all children will be produced by artificial insemination.	6	6	26

(c) MORI (Sunday Times 15th January 1984)

The Sunday Times on 15th January 1984 included details of a MORI poll of coal miners conducted on 13th January. They found that by a majority of nearly two to one the miners opposed the ending of the overtime ban - 61% opposing the ending of the ban with 35% in favour of calling it off. Miners opposed calling a national strike - only 24% thought a national strike should be called with 68% opposed. MORI found considerable disagreement and uncertainty among miners about the effectiveness of the ban. Asked whether it had been effective in putting pressure on the N.C.B. 24% thought it had been very effective, 30% fairly effective, 21% not very effective and 22% not at all effective.

(d) NOP (Daily Mail 13th January 1984)

The Daily Mail on 13th January included details of a NOP poll conducted in Chesterfield on 11/12 January - before Benn was selected as Labour candidate. They found 60% claiming they would vote Labour, 27% Conservative, 11% Alliance and 2% for 'other' parties.

(e) NOP (Daily Mail 16th January 1984)

The Daily Mail on 16th January included details of a NOP poll conducted on 4/5 January on attitudes to the government's proposals on rates. When NOP told electors that the Government intends to put a limit by law on rate increases by high spending councils 58% backed such a limit. But while the public wanted action on the high spending there was less support for a general Government power to control rate levels. When NOP asked 'Should the Government have powers to limit the rate, increases of all councils or not?' - 49% said no to the idea while only 45% backed it. NOP found the electorate divided as to whether the Government has the right to interfere with local government spending levels - 47% thought it had and 43% that it did not. When NOP put the statement 'High rates on local boundaries cause unemployment' - 72% agreed and 18% disagreed.

I.24

CHANCELLOR

put
FROM: ADAM RIDLEY
16 January 1984

cc CST
FST
EST
MST
Mr Lord
Mr Portillo
Sir P Middleton
Mr Bailey
Sir L Airey, I/R

Proposed
Mr.
Discussed

CHILD BENEFIT PLEDGES AT ELECTION TIME

During a recent discussion, the question was raised as to what pledges, if any, had been made about child benefit in the Election. I have checked again the massive survey which was undertaken last year, and circulated under cover of my minute of September 1 to you. The position can be summarised as follows:

- Election
- (a) At the/Press Conference on June 7, Mr Fowler spelt out which benefits were price protected by Government pledge, adding that
"...unemployment benefits are not a pledged benefit..nor is child benefit...but we have managed to price protect those benefits as well...and that would be our aim in the future".
- (b) In an open letter to Brynmor John on May 20, the PM wrote
"There are no plans to make any changes to the basis on which the benefit is paid or calculated".
- (c) Questioned on "rumours" of plans to means-test child benefit, the PM said
"Nonsense. No, no, no."

When I said at the time of the discussion that I thought that our hands were to some extent tied, it was a substance of the third quotation, at (c), that I had in mind.

AR

A N RIDLEY



(not)

John C.

Mtg of Conservative
backbench Fin. Cttee.

The other Ministers
can all do 21st Feb
around 6.00pm. (The
attex's preference of 14th
no good because CST abroad)

~~My
OK? If so - ? Made no fix?
John~~

NOTE OF A MEETING BETWEEN THE CHANCELLOR AND THE OFFICERS OF THE BACKBENCH FINANCE
COMMITTEE ON 16 JANUARY 1984 AT NO 11 DOWNING STREET

16/1/84.

Present: Chancellor of the Exchequer
Sir William Clark MP
Anthony Beaumont Dark MP
Nigel Forman MP
John Townend MP
John Browne MP
Hon Mark Lennox-Boyd MP

1. Sir William enquired about the date of the Budget and it was agreed that the Chancellor and other Ministers should visit the Finance Committee for the pre-Budget meeting either on 14 or 21 February. February 28 was also suggested as a third, though less satisfactory alternative. Sir William raised three matters for the Chancellor to consider in the Budget:

- i) the thresholds on income tax
- ii) the question of stamp duty, a particularly important matter because of the reform of the Stock Exchange and the abolition of exchange controls, and
- iii) assistance for the construction industry. He referred to the lobby from the construction industry on Members of Parliament and suggested that the Chancellor should look at development land tax. The 60 per cent rate was an inhibiting factor in construction, and the collection costs were very high. The bulk of building land was owned by companies and a considerable amount was not developed. He suggested that if the Chancellor was to abolish the DLT and substitute in its place CGT, the cost would be no more than about £10 million because it would represent a reduction from 66 per cent to 52.52 per cent, and would provide a psychological filip to answer the pressure groups.

2. John Townend agreed about stamp duty and felt that there should be help for share options in order to encourage an Equity owning democracy as we had encouraged a property owning democracy in the last Parliament. He felt the tax thresholds were very high on the low paid, ^{and} would like to see some movement

on CGT and CTT. He referred to the difficulty found by land owners in letting farms and would like to see income from farm tenancies treated as earned.

3. Nigel Forman indicated that he did not feel there was much for the Chancellor to give away, but felt that anything that the Chancellor could do should be directed towards industry first and the taxpayer second, in contrast to the policies of the last government where the taxpayer was helped first and industry second. He felt the Chancellor should tackle the national insurance surcharge and that he should also do anything he should take risks to reduce interest rates.

4. John Browne agreed that stamp duty was an important matter and felt that if there was room CGT would be his main target. He urged that there should be a continuing simplification, even at the expense of loopholes, of the business start-up and expansion schemes. He observed that there was a lot of capital for investment in institutional hands, and mentioned his interest in the Wilson report. He urged that if taxation of the banks was being considered, they should be encouraged by fiscal means to establish pools of investment capital rather than have their profits reduced by taxation. He observed that for many entrepreneurs the only contact with the financial world was through their local bank managers.

5. Anthony Beaumont Dark agreed that something must be done about stamp duty. He observed that the commission on Treasury bills was $8\frac{1}{4}$ per cent and only 1 per cent on large equity funds, and was concerned about the danger of ADRs taking so much of the market. He added that there was tremendous irritation amongst management with the continuing attack on company cars. It provided small beer to the Treasury but was nonetheless^a significant burden on those who were being taxed in this way, most of whom were good Tories. He mentioned that we should "pay more for our enemies" and that the saving of £230 million in housing benefit changes was very small compared with the immense upset caused to $1\frac{1}{2}$ million people. He urged the government to look at the effects on the average man every time it made adjustments.

6. There followed a general discussion in which the Chancellor answered these points. During this discussion, Sir William and John Townend supported the views expressed about company cars. John Browne expressed the view that encouragement to individual investment was the key because industry

did not seek investments with a high return. Anthony Beaumont Dark raised the question (in answer to Nigel Forman) where does the money to help industry come from? John Townend suggested there could be a trade-off between regional aid and the national insurance surcharge. Nigel Forman reiterated the view that the Chancellor should take risks to help industry and should do nothing to alleviate thresholds if that was the necessary cost. Sir William expressed the view that the cost of the NIS was so high that it was difficult to cut, and further that NIS was not an inhibiting factor to investment.

7. The Chancellor then invited the views of the Committee on a series of probable options.

- i) on the assumption that it might (and this was remote) be possible to reduce income tax, would it be better to raise the threshold or cut the rate;
- ii) if it might be possible to reduce company taxation was it better to deal with the NIS or corporation tax?
- iii) the question of political balance in the Budget.

As to i) there was unanimous agreement that it was preferable to cut thresholds. As to ii), Nigel Forman preferred the NIS, Sir William a cut in corporation tax. He added that the Chancellor might consider the capital allowance system in relation to the service sector. Anthony Beaumont Dark observed that overtime was immensely high in many companies because the Employment Protection Act had such expensive consequences for companies when they shed labour that they preferred to meet any expansion by increased overtime. This was highly damaging for unemployment. John Townend and John Browne preferred cuts in the NIS. As to iii) John Browne expressed the view that the Chancellor should do what was necessary and be unafraid of accusations of political bias. Nigel Forman concurred that he could continue in such a way for two years. John Townend expressed the view that an increase in the mortgage relief would be a political necessity during the Parliament. Anthony Beaumont Dark reflected that people with money feel very uncomfortable about unemployment. John Browne expressed the view that it was vitally important to shake out overmanning. Sir William indicated that he would

not touch NIS unless it could be completely removed.

8. The meeting concluded with Anthony Beaumont Dark congratulating the Chancellor on the way he reacted to the £ and the \$ with great calm.



MARK LENNOX-BOYD

Distribution

Ministers
Advisers
PPS

PWP

Jok
mon
Es

MEETING OF THE PARLIAMENTARY PRIVATE SECRETARIES ADDRESSED BY THE CHANCELLOR
18 JANUARY 1984

Those Present: Chancellor of the Exchequer
Chief Whip
PPSS (see attached list)
Michael Portillo

Tony Nelson wanted policies that would produce lower interest rates. The fall in rates so far had been more helpful than all policy initiatives taken together. But present real interest rates required businesses to make a rate of return of at least 7 per cent on capital which was historically very high. He urged the Chancellor to be restrictive on the fiscal side and to announce an interest rate cut in his Budget.

2. Ken Carlisle said that while he understood the Government's policies to maintain public spending constant in real terms and allow growth to provide the room for tax cuts, he had his doubts about how this would work out in practice. The pressures for increased spending were considerable. The Government should put greater emphasis on the public debate on public expenditure and present the dilemma to the public.

3. Iain Mills wanted the Chancellor to confirm that the Government's primary objective was the creation of national wealth. He wanted to see a Budget that reduced industry's costs - the NIS in particular.

4. Tim Renton strongly endorsed the Chancellor's hint of a tax-reforming Budget. This process must begin in the first Budget. He hoped it would apply both in the personal and corporate tax areas.

5. Jim Pawsey wanted the Chancellor to consider particularly the position of pensioners. They had not come out of the last Budget well. He hoped he would bear in mind the loss that pensioners had suffered through the reduction of housing benefit.

6. Tim Eggar wanted the Chancellor to look at the tax concessions: in particular mortgage interest relief and life assurance premium relief. He urged the Chancellor not to make any document on LTPE too bland (but agreed with

CONFIDENTIAL

the Chancellor that to spell out the options for reductions in programmes was not politically sensible).

7. Nicholas Baker wanted the public at least to see clearly the options between higher spending and lower taxation.
8. Stephen Dorrell hoped the Chancellor would tackle the taxation of the entrepreneur. Reforms in this area were cheap, but not popularist, and should be done early. Other countries offered greater tax benefits for those participating in risk-taking. He wanted to see the marginal rates of corporation tax reduced. He believed that companies would borrow less if they were taxed less, and that would offset a somewhat higher PSBR. (The Chancellor did not agree on this last point that that conclusion could be confidently drawn).
9. Angela Rumbold supported previous comments made on LTPE. She had been disappointed that the Prime Minister had said on "Weekend World" that at the end of our term the burden of taxation might be no lighter than when the Conservatives had come to power. She sought greater encouragement from the Chancellor than the Prime Minister had been able to give publicly.
10. Tony Durant was concerned about energy prices. Was it not possible - particularly in the case of the CEGB - to get increased efficiency rather than higher prices? He also wanted to know whether the ECGD was about to go bust.
11. Michael Colvin hoped that there would be encouragement in the Budget for the retention of capital. He felt that in 1979 the opportunity had been missed to scrap stamp duty, CGT and CTT. Now it was particularly important to tackle CTT. Noting that the previous Chancellor had been able to make a substantial switch from direct to indirect taxation, he wondered whether there was scope for the Chancellor to go further.
12. Richard Needham understood the Chancellor's need to set a PSBR that would not frighten the markets. But he noted that the markets were not frightened in the USA. He urged greater flexibility on the Chancellor. The thing that frightened markets was when Governments missed their targets, so it was unwise to set an unrealistic target in the first place. He also wished

CONFIDENTIAL

to know the Chancellor's views on how the service sector would develop. He foresaw a time when sterling would be lower because of the decline of North Sea Oil, but at that time our manufacturing base would be very weak.

13. Peter Lloyd was worried about the proliferation of tax concessions and wanted to know whether it was the Chancellor's policy to reduce their number.
14. Nick Lyell reiterated earlier comments on LTPE, and urged the Chancellor to get the debate going.
15. Peter Lilley entered a word of caution on tax reform. There were bound to be winners and losers, and it was difficult to whip up enough enthusiasm amongst the winners to compensate for the disappointment of the losers. It was taxation in general that was resented, and it would be a mistake to over-estimate the distinction that people drew between one sort of tax and another.
16. John Watson asked the Chancellor whether, if public sector capital expenditure were higher, the Chancellor would be more relaxed about seeing a higher PSBR.
17. Lord James Douglas-Hamilton wished to see a continuing process of further encouragement to marginal oil and gas fields. He also emphasised that freeports were of great interest to enterprise.



M D X PORTILLO

Distribution

Ministers
Advisers

FROM : M D X PORTILLO
DATE : 19 JANUARY 1984

CHANCELLOR

Fridgetw

Prayers on Sunday (5pm)

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
David Hunt MP
Hon Mark Lennox-Boyd MP
Mr Ridley
Mr Lord

SELECT COMMITTEE

Tony Beaumont Dark says he would welcome your thoughts. The following are strong runners:

- Alan Howarth
- Robert Jackson
- Francis Maude
- Colin Moynihan
- Michael Howard
- ~~William Powell~~
- Richard Ryder

Christopher Chope

*18/1/84
Hammer to FST's PPS
Y.S.*

M D X PORTILLO

(Pup)

FROM : M D X PORTILLO
DATE : 19 JANUARY 1984

CHANCELLOR

*For folders for
Tuesday's Evening*

JM

cc Chief Secretary
Financial Secretary
Economic Secretary
Minister of State
David Hunt MP
Hon Mark Lennox-Boyer
Mr Ridley
Mr Lord

SELECT COMMITTEE

Tony Beaumont Dark says he would welcome your thoughts. The following are strong runners:

- Alan Howarth
- Robert Jackson
- Francis Maude
- Colin Moynihan
- Michael Howard
- William Powell
- Richard Ryder

CHANCELLOR.

*cc above
+ Mr Portillo*

No one on this list is an ideal replacement for P. Lilley, since he has a good training in economics or his practical experience. This leads me to ask if the Whip knows of any other serious candidates?

If there are none, Richard Ryder is ruled out for other reasons. If you want the best remaining person on the above list, I would prefer R. Jackson to A. Howarth any day, the others all being very improved. But what about people like C. Chope, whom you know, or R. Freeman (Kettering) whom I know to be a good egg? *M 201*

(Signature)

M D X PORTILLO

MONDAY, 23RD JANUARY 5 P.M.

EXTENDED PRAYERS

CHIEF SECRETARY HAS NOTHING TO
DECLARE

ECONOMIC SECRETARY: HAS
SUGGESTED FOR THE AGENDA

"THE DOMESTIC AND POLITICAL
IMPLICATIONS OF THE EUROPEAN
ELECTIONS"

Prayers - Monday 5pm

FROM : M D X PORTILLO
DATE : 19 JANUARY 1984

No agenda req'd.
But basic question this is
political/finance problem,
& non matters of
detail. etc.

- CHANCELLOR
- CHIEF SECRETARY
- FINANCIAL SECRETARY
- ECONOMIC SECRETARY
- MINISTER OF STATE
- MR RIDLEY
- MR LORD

EXTENDED PRAYERS : MONDAY 23 JANUARY (5pm, start up to 2 hours)

✓✓

It might be helpful to have some sort of Agenda for Monday. If Ministers or Advisers have one or two topics or themes which they would like to have discussed, perhaps they could let Mr Ridley know during the course of Friday. (He should be back in the office then).

C.

Address
I'm sure that you do want an agenda.
Any ideas for me to give Adam?

M D X PORTILLO

2. The only items that I know you want to cover are:-

- i. Budget Security - i.e. clamping-up.
- ii. Seeing Gult. Backbones before the Budget - i.e. the
division of labour.
- iii. Cheering: retrospect.

3. But you have time for a lot more:-

- i. ? A 'political' run over the Battishill Scorecard;
- ii. ? Review from CST of any major new p.x. threats
- iii. ? Review from EST on the Interest Rate Threat
- iv. ? Euro-Manifesto : Adam/EST to report on work in hand.
- v. ? Touring : was the Liverpool trip useful?
Give that all HMT Ministers represent S. English
seats, should all get North and West more often?
LDR



PERSONAL



*For folder for Spn
on Monday*

FROM: A P HUDSON
DATE: 20 January 1984

MR RIDLEY

cc **Chancellor**
Chief Secretary
Economic Secretary
Minister of State
Mr Lord
Mr Portillo

EXTENDED PRAYERS: MONDAY 23 JANUARY

The Financial Secretary has the following suggestions for discussion on Monday:

- a. Should benefit up-rating decisions be taken separately from tax decisions?
- b. Should we ask departments to include in their Budget submissions proposals for offsets to make the changes revenue-neutral?
- c. Should the Inland Revenue (or for that matter Customs and Excise) remain separate from Treasury at senior level?

A P HUDSON



*John's
pps were in
this morning's
Prayer's folder.
David*

FROM: A P HUDSON
DATE: 23 January 1984

PRINCIPAL PRIVATE SECRETARY

cc Chief Secretary
Economic Secretary
Minister of State
David Hunt MP
Hon Mark Lennox-Boyd MP
Mr Ridley
Mr Lord
Mr Portillo

SELECT COMMITTEE

The Financial Secretary has seen Mr Portillo's 19 January minute, listing possible candidates for the TCSC. He thinks the front runners are Alan Howath, Michael Howard, and William Powell. He would be strongly against Colin Moynihan.

APH

A P HUDSON

Prop

NOTE OF A MEETING OF THE FINANCIAL SECRETARY WITH BACKBENCHERS ON MONDAY

23 JANUARY 1984

Present: Financial Secretary
 Sir Peter Emery MP
 Sir John Biggs-Davison MP
 Nigel Forman MP
 Robert Adley MP
 Tim Eggar MP
 Tim Yeo MP
 Peter Viggers MP
 Michael Portillo

c. attached.

*Page left with
 of box in of (a)
 Butler's 1st House
 Spd (1971), (b)
 Butler's 1st (? 1952)
 (c) House 1st
 M.*

Robert Adley was well pleased with the NEDC paper which had laid emphasis on the potential for creating wealth and jobs in the service sector. He wished to see further encouragement through fiscal measures of new industry. He noted the success of the industrial building allowances which he said created investment which amply repaid the tax expenditure involved.

2. Sir John Biggs-Davison said that he hoped the Budget would show the way forward for the entire Parliament towards controlling public expenditure and offering major tax reductions by the end of our term.

3. Tim Yeo noted that the case for VAT exemption of charities had been strengthened by the VAT exemption granted to health authorities on sub-contracting. He also thought there was a case for giving companies tax relief on one-off donations to charity - not just for four year covenants. He thought that our efforts on cutting taxes should in future be concentrated on the bottom end. The strategy should be to attack the poverty and "why work?" traps. It was no longer attractive to make our tax-cutting more general.

4. Tim Eggar agreed that our objectives should be to deal with incentives at the bottom of the scale. The best way of dealing with the morass of benefits was to raise the threshold. He hoped the Chancellor would also look carefully at tax expenditure - particularly the relief granted on life assurance premiums, pensions and mortgage interest. He believed that many of the other allowances could in time be abolished if thresholds were raised sufficiently.

5. Robert Adley complained that the Treasury took too narrow a view of government guarantees for large capital projects. He argued that all that was

ing sought on the Channel Tunnel was a political guarantee, not a financial one. He also thought that the government made an error in lumping together under the term "nationalised industry", industries as different as British Leyland and British Rail.

6. Nigel Forman said that the first Budget should encourage investment and exports. This should not be the Budget for personal taxes. Our emphasis should be on the supply side in order to prove the government's radicalism. There was a need for a wide ranging speech by the Prime Minister or the Chancellor to bring together all that had been achieved in this area already. At some time during the Parliament the moment would be right to tackle personal taxation. The choice would then be whether to raise the threshold substantially or to tackle the complex inter-relationship of benefits. He believed that we ought to tackle the latter although the problems were much more complicated. He hoped that we would not, during the course of the Parliament, forget our objectives for tax reform and simplification. He recalled Anthony Barber's first Budget and noted that some progress had been made during that Parliament. He hoped that we could still move towards a tax credit system and noted with satisfaction that child benefit and housing benefit gave us building blocks for such a system.

7. Sir Peter Emery noted that Anthony Barber had announced^a/strategy for four years in his first Budget. He had also given the assurances for the Parliament that industry required. He had always been a "negative income tax" man. The thresholds should in this Budget be increased at least in line with prices. He echoed Robert Adley's point on government guarantees. He noted the success of COSIRA where the government's liability had been limited to bad debts - and they were only 6 per cent of the total £2 billion. It was absurd that the Treasury viewed such a project as involving a contingent liability of the full £2 billion. He also wished to see action taken on the investment income surcharge for the elderly. It was double taxation since the sums invested had already been taxed and was unfair to the self-employed who made their own arrangements for retirement. On this point, Nigel Forman commented that he gave a lower priority to this reform at a time when inflation was so low.

8. Tim Eggar hoped that the Chancellor's Budget speech would dwell in part on LTPE. He was afraid that the Treasury would produce a bland document. What was needed was a clear exposition of the choices and options that faced us.

9. Nigel Forman did not agree with him. We should not attach too much importance to one document, whose assumptions could readily be undermined. In any case, underlying even a mild document would be very unpalatable choices. But Tim Eggar insisted that the document was needed as an aid to controlling expenditure and Tim Yeo thought that it would also serve to constrain the opposition by forcing them to stick to reality.

10. Sir Peter Emery felt that the document would merely demonstrate that we were in a straitjacket. There was only value in publishing such a document when we had identified room for manoeuvre.

Distribution

Ministers
Advisers
Hon Mark Lennox-Boyd MP
Peter Viggers MP



M D X PORTILLO



CHANCELLOR

ENVIRONMENT COMMITTEE THURSDAY 19 JANUARY 1984

FROM: P Viggers MP

DATE: 23 January 1984

cc. CST, FST, EST, MST,
Hon Mark Lennox-Boyd MP
Mr Adam Ridley
Mr Michael Portillo
Mr Rodney Lord
Dr Brian Mawhinney MP

Mr Alan Greengross Conservative Leader of the GLC attended. He said that the conservatives at the GLC were absolutely committed to the Conservative Manifesto commitment on the abolition of the GLC. Press reports to the contrary are untrue.

He then described "pan-London" functions which need to be carried on by some form of authority. He described the need for consultative procedures and a structure to deal with London-wide problems but he criticised the present proposals:-

"As things are postulated at the moment it does not seem to have much chance of success".

He criticised ILEA for its lack of accountability and drew a parallel from ILEA to criticise the proposal of consultative committees. He said:-

"We need a London-wide body to deal with London-wide issues. We can see no alternative to direct elections to such a body."

He then contrasted his suggested body with the present GLC and said that in his view "the GLC should be swept away and replaced by GLC Mark 2 which could manage with a secretarial staff of 200 or 300 and whose purpose would be to co-ordinate the activities of the London Boroughs on London-wide issues".

PETER VIGGERS



CHANCELLOR

*Man
Mawhinney*

FROM: P Viggers MP
DATE: 23 January 1984
cc. CST, FST, EST, MST,
Hon Mark Lennox-Boyd MP
Mr Adam Ridley
Mr Michael Portillo
Mr Rodney Lord
Dr Brian Mawhinney MP

PENSIONS

Roger Freeman MP has organised two ad hoc meetings on pensions of which the first took place at the House of Commons on 18 January.

Roger Freeman told me that he invited 200 Conservative Members of Parliament of whom 47 wrote to say that they thought the subject important and wished to be kept informed of developments. The following attended the meeting:-

- | | | |
|---------------------|--------------------|--------------------|
| Roger Freeman MP | Alan Howarth MP | Michael Stern MP |
| Kenneth Carlisle MP | Trevor Skeet MP | Peter Bottomley MP |
| Michael Neubert MP | Richard Needham MP | Eric Cockeram MP |
| Michael Shaw MP | Andrew Rowe MP | Tim Eggar MP |
| Mark Lennox-Boyd MP | | |

Representatives of the National Association of Pension Funds, Life Offices Association, Institute of Actuaries and The Society of Pension Consultants were present. The Chairman of the Joint Working Group on Pensions (Mr Marshall Field) outlined the pension industry's approach to Norman Fowler's Committee of Enquiry. He said that the most important subject is "portability" but this means different things to different people. He made three main points:-

1. The present structure of the pensions industry allows for transferability of pensions.
2. The significant question is how much pension entitlement may be transferred.
3. A subject for discussion is the extent to which individuals should have the investments built up for their benefit.

The choice is between (a) End-salary related schemes with insurance cover ("Group" schemes) or (b) Pensions based on individual contributions ("Money purchased" schemes)

The Members of Parliament present appeared united in their concern that there should be radical change in the pensions industry. There was a wide spread view that the insurance industry had failed to take account of the interests of many of those for whom pensions were arranged.

Members argued in favour of "money purchased" schemes. The pension industry representatives argued that "group" schemes provided a safety net for many participants.

It was clear from the meeting that the views expressed by the Centre for Policy Studies were widely supported. The second ad hoc meeting is to be on 25 January when Nigel Vinson from CPS will attend.

PETER VIGGERS

FROM : M D X PORTILLO
DATE : 23 JANUARY 1984

CHANCELLOR

C.
No script here.
Does that matter?

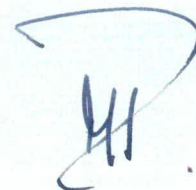
TRADE AND INDUSTRY COMMITTEE : 24 JANUARY

LP

Michael Grylls would like you to speak for five or ten minutes. He is particularly keen that you should refer to his group's paper on investment (see attached) and indicate whether there is any possibility of pursuing the ideas in the paper. It may be a good idea for you to explain again the arguments about public sector investment and indicate how we intend to treat the figures in the forthcoming Public Expenditure White Paper. I think Michael Grylls would strongly agree with you that the important thing is to get investment - whether private or public sector - and that not all investment is necessarily productive.

2. Michael will be looking for some reduction in the small profits rate of corporation tax below the present 38 per cent. He - and probably other Officers of the Committee - are also concerned that a lot of money is still being wasted through regional industrial policy, and they may be interested in any remarks you have to make on the White Paper.

3. They would also be interested to hear about privatisation. Michael Grylls is sympathetic to the Government on the difficulties of introducing a lot of competition at the same time as trying to privatise. For example, he recognises that trying to get Mercury established as BT's one competitor, is sensible. Michael Grylls is co-author with Tim Eggar and Ken Carlisle of the recent CPC pamphlet "Reversing Clause IV" (see attached).



M D X PORTILLO

STUDY GROUP ON INVESTMENT ESTABLISHED BY MICHAEL GRYLLE

I understand that the argument between the Grylls Group and the Treasury has gone backwards and forwards over a period of years. The Group released its third report in July 1983, and came to see you at about the same time. They also had two meetings with John Moore, and are scheduled to have another one with Ian Stewart shortly.

2. The thesis is that British industry is starved of medium and long-term finance. The banks in Britain behave very conservatively. Economic decline can only be arrested if something is done about this situation. The proposed solutions are:

- a) to subsidise interest rates for certain categories of business or
- b) to provide equivalents to first year capital allowances even for companies which are not making a profit and therefore not paying corporation tax.

3. The Treasury disagrees with the analysis. It argues that investment in relation to our GNP compares with that of most other countries (excluding Japan). The problem is that GNP itself is so low here. The important thing is in any case not the quantity of investment but the quality. Whilst it may be true that the German banks are more heavily involved in industry than our own, that is not necessarily an unmixed blessing. It does not necessarily mean that the money is going into the right place and at the right price. In any case, there are signs that our own banks have become considerably more flexible over time and are now more willing to lend long. On top of that there have been important recent developments in the venture capital market.

4. I am sure that you would doubt the feasibility of an investment-led recovery and you would argue the important thing was to get the conditions of the market right and allow the benefits to flow from that - not to intervene to subsidise the cost of money.

"REVERSING CLAUSE IV" BY TIM EGGAR, KENNETH CARLISLE
& MICHAEL GRYLLES
SUMMARY OF SPECIFIC INDUSTRY PROPOSALS

Name	Ownership	Peripheral Businesses	Monopoly	Regulation
Rolls-Royce	Sell as soon as possible	n/a	Competitive	No need
British Airways	Sell as soon as possible	Sell these first	Competitive	No need
Royal Ordnance Factories	Sell off as many factories as possible	n/a	Most compete	No need
National Bus Corporation	Sell off as many component parts as possible	—	Local Authorities to be responsible for routes through tenders	Local Authority administered
British Airports Authority	Abolish. Each major airport to have Privately-owned Authority	—	—	Landing charges at Heathrow to be regulated
British Telecom	Sell 51 per cent as pledged	—	More aggressive competition policy essential	Interim regulation until competition is established
British Gas Corporation	High pressure network sold as a common carrier. Local Boards sold as distribution companies	Oil interests to be disposed of. Showrooms sold individually	Gas suppliers will compete with each other having equal access to common carriers	Regulation of the monopoly common carrier and local distribution monopolies needed in near term
British Shipbuilders	Sell warship yards. Sell or close offshore yards. Sell Falmouth Ship-repair. Merchant ship-building likely to remain in public ownership for some time, though split into component parts		Merchant yards to compete with each other	No need
Post Office/Giro Bank	Retain in public ownership	Crown Offices put out to tender	Threat of suspension of monopoly gives competitive spur. Encourage competition from new post technologies	No need
Water Boards	Retain in public ownership	—	Pressure to contract out services	Regulation needed
National Coal Board	Dispose of pits gradually	Sell as soon as possible	Encourage competition	Allow competitive pressures to develop
Electricity Supply Industry	National grid sold as a common carrier. Area Boards sold as local distributors, five generating boards sold separately	Showrooms sold individually. Electricity Council abolished	Suppliers would compete, with equal access to the common carrier. Area Boards free to generate	Generation unregulated. Distribution and transmission monopolies regulated in near term
British Railways	The basic tracking and signalling, at least, seems destined to remain publicly owned	Accelerate property disposals	Franchise out catering, station management, possibly passenger services	Monopoly prices to be regulated
British Leyland	Split into component parts. Sell as many as possible. Volume cars likely to remain in public ownership for some time	Continue divestment as matter of urgency	Competitive	No need
British Steel Corporation	Sell or close down the downstream businesses. Split upstream businesses into their components. These likely to remain publicly owned for some time	Sell peripherals	Downstream divestment will end unfair competition. Aggressive competition policy needed. Upstream businesses to compete with each other	No need